

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
CITY OF ORANGE CITY, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

Prepared by the
Office of the City Administrator
Duane Feekes, City Administrator

**CITY OF ORANGE CITY, IOWA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004
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January 24, 2005

The Honorable Mayor and
Members of the City Council
City of Orange City, Iowa

The Comprehensive Annual Financial Report of the City of Orange City, Iowa, for the fiscal year ended June 30, 2004, is submitted herewith, in accordance with the provisions of Section 384.22 of the Code of Iowa. We believe the data, as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included. We, as management, are responsible for the information presented in this Comprehensive Annual Financial Report.

The City of Orange City incorporated in 1884, is located in the Northwest corner of the State of Iowa, and is the county seat of Sioux County.

The City has a Mayor-Council form of government with five Council members. The Mayor is elected for a two-year term, while the Council members are elected on a staggered basis for terms of four years.

The Council appoints a City Administrator who has operating responsibilities for all City functions excluding the Library and Hospital.

The City of Orange City provides a full range of Municipal services which includes police, fire, medical care, recreation, streets, electric, water, sewer, gas and general administration.

The financial statements and schedules included in this report reflect all the funds of the City in accordance with standards set by the Governmental Accounting Standards Board. This is the first year of implementation of GASB Statement 34. This statement significantly changes governmental financial reporting in order to bring it closer to a private sector model. Because of these changes, the report will look much different from those you have reviewed in prior years.

This comprehensive annual financial report is designed to meet the needs of a broad spectrum of financial statement readers, and is divided into three major sections. First is the introductory section which includes this transmittal letter, the City's organizational chart, list of the principal officials of the City, and Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. Second is the financial section, which includes the independent auditors report, management's discussion and analysis, the basic financial statements and supplemental information of the funds and account groups of the City of Orange City for the 2003-2004 fiscal year. Third is the statistical section, which includes comprehensive statistical data which includes comprehensive statistical data which is intended to give the reader a broader and more complete understanding of the financial and economic trends of the City of Orange City. And finally, there is the auditor's report on the internal control over financial reporting.

REPORTING ENTITY

The City of Orange City has included all funds, organizations, account groups, agencies, boards, commissions and authorities, also considering all potential units for which it is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. We have also included the Orange City Municipal Hospital as a component unit because of its financial relationship with the City.

ECONOMIC FACTORS AND FUTURE PROSPECTS

Orange City is located in Sioux County in the northwest portion of Iowa, which is noted for its excellent cropland and livestock production numbers. Industry plays a big part in Orange City's economic condition with the biggest four employers being Advanced Brands, Inc., a ready-to-cook food producer, Orange City Health Systems, a municipal acute hospital, American Identity, Inc., an advertising product manufacturer, and Vogel Paint and Wax, a full line paint manufacturer.

The City's economic outlook continues to be positive, with industry and commercial business showing continued growth in product lines and employment.

2003 – 2004 HIGHLIGHTS

Fiscal year 2003-2004 was another great year for the community of Orange City. Many exciting trends and projects took place, which continue to improve the quality of life for its citizens.

Bids were let and a contract was awarded for our broadband communications system. This overbuild will allow the citizens of Orange City to be served with telephone service, high speed internet, and cable TV. The cost of the project will be approximately 4 million dollars. This overbuild was possible because of the partnership created in March of 1999 with Long Lines Ltd. of Sergeant Bluff, Iowa and the City of Orange City.

Bids were let and a contract was awarded for construction of new paved streets in one of the original parts of town. The project added seven blocks of new streets in our residential district. The city council has continued their plan to keep infrastructure in the community in good repair for the future. The City of Orange City plays an important part in the community growth, which will continue with active participation in the planning process of our community.

Two new housing subdivisions were completed during the year that will add a range of lot options for those interested in constructing a home in Orange City. The Puddlejumper View has twenty-seven lots available and the Rankin Subdivision has four lots available for sale.

Another great project that was begun this year was the construction of a new hospital building. On December 9, 2003, the City had a public vote for the General Obligation bond of 3.5 million dollars to go towards the 30 million dollar project. This project will consist of equipping a municipal acute care hospital of approximately 25 beds, a surgery center, a diagnostic center providing radiology and laboratory services, and a clinic for family care and specialist services. The hospital is scheduled to be completed in the spring of 2006.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls – In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Cash Management – Cash temporarily idle in all funds at the end of fiscal year 2004 was invested in various types of investment instruments. On June 30, 2004, the City's (including Orange City Municipal Hospital) cash resources were invested in Certificates of Deposits, Money Market Accounts, and Treasury Securities. The amount of interest received during fiscal year 2004 was \$179,542.

Risk Management – The City has several different insurance policies, each covering a specific category. These policies are reviewed each year with our insurance agent Van Engelenhoven Agency, Inc. to make sure all liabilities are reviewed.

Management Discussion and Analysis – The Management Discussion and Analysis provides a detailed analysis of the changes in the City's financial position. One item of particular interest is the change in reporting model to a one bottom line number approach, which is close to that of the private sector. Following this approach, the Statement of Activities shows an increase in net assets of \$373,000.

OTHER INFORMATION

Independent Audit – The State Code requires an annual audit of financial records by the State Auditor or by a Certified Public Accountant selected by the City Council. The audit for the 2003-2004 fiscal year was made by Williams & Company, Certified Public Accountants. Their opinion has been included in this report.

GFOA Certificate of Achievement – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Orange City for its comprehensive annual financial report (CAFR) the year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Orange City has received a Certificate of Achievement for the last 22 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.


Acknowledgements – The operation of our office and the preparation of this report could not be accomplished without the efficient and dedicated efforts of the entire office staff.

To close, we would like to thank all our City employees for their dedication to making City services the best. Also, thank the Honorable Mayor and City Council for their continued support of the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



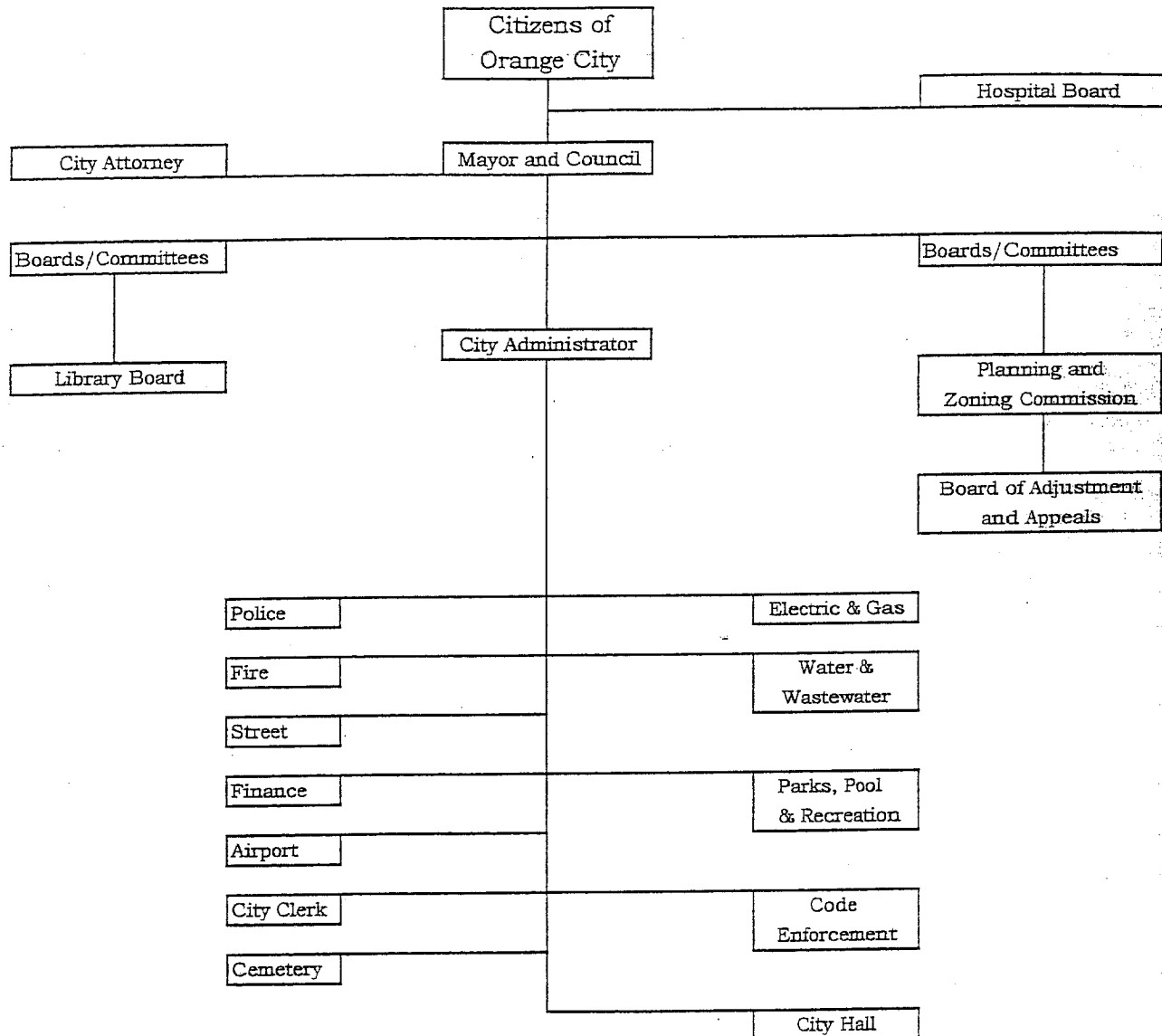
Duane Feekes
City Administrator



Kent Anderson
Finance Officer

CITY OF ORANGE CITY, IOWA

ORGANIZATIONAL CHART



CITY OF ORANGE CITY, IOWA

**Directory of City Officials
Elected City Officers
June 30, 2004**

MAYOR

Daryl Beltman

COUNCIL MEMBERS

Ryan Achterhoff
Steve Roesner
Mick Snieder
Bruce Muilenburg
Earl Woudstra

HOSPITAL TRUSTEES

Les Douma
Randy Jacobsma
Paul Koets
Shirley Van Wechel
Tim Zeutenhorst

APPOINTED CITY OFFICERS

Duane Feekes
City Administrator

Loren Veldhuizen
City Attorney

APPOINTED BOARDS AND COMMISSIONS

ZONING BOARD OF APPEALS

Gary Cleveringa, Chairman
John Kooiman, Vice Chairman
John Zeutenhorst
Don Engelties
Audley Van Peurse

PLANNING AND ZONING COMMISSION

David Van Engelenhoven, Chairman
Richard Deets, Vice Chairman
Bennie Mulder
Alan Krull
Rhonda Moret
Mark Lundberg
Dale Pluim

ARTS COUNCIL

Jeff Sajdak, President
Karen Barker, Vice President
Grete Carlson, Secretary
Kathy Brogan, Treasurer
Perry Borchard
Bonnie DeJong
Margene Eekhoff
Bill Herzog
Ann Juhl
Martha Rankin
Andrea Van Beek
Janie Van Dyke
Joyce Bloemendaal, Executive Director

LIBRARY BOARD OF DIRECTORS

Peg Juffer, President
Anita Bomgaars, Vice President
Ed Starkenburg, Treasurer
Leora Olson, Secretary
John Buntsma
Jim Ludens
Mary Vande Brake

FIRE DEPARTMENT

Scott Arft
Mike Avery
Daryl Beltman
Riley Bruxvoort
Rob Bruxvoort
Kevin Dekker
Brian De Kock
Jon DeKoster
Brad De Vos
David Dykstra
DeWayne Dykstra
Josh Dykstra
Mel Elsberry
Brian Feenstra
Chad Hase
Tim Huffman
Nic Kramer
Alan Jeltema
Gary Jeltema
Darwin Koele
John Lambert
Ann Lundberg
Ken Meendering
Cory Riemersma
Mike Ritz
Dan Roghair
Roger Roghair
Bruce Schutt
Scott Simmelink
Dennis Vander Wel, Chief
Mike Verdoorn

CITY PERSONNEL

ADMINISTRATION

Kent Anderson
Gary Blythe
Janet Brown
Duane Feekes
Ted Loucks
Ken Meendering
Barb Ramsey
Mary Wichers

Finance Officer
Assistant Administrator
City Clerk
City Administrator
Public Works Director
Code Officer
Billing Clerk
Receptionist/Secretary

POLICE DEPARTMENT

Dann De Vries
Peter De Beer
Duane Hulstein
Bruce Jacobsma
Jim Pottebaum
Wesley Van Voorst
Robert Van Zee

Chief of Police
Police Officer
Police Officer
Police Officer
Police Officer
Police Officer
Police Officer

STREET DEPARTMENT

Jeremy Bach
Kirk Maasdam
Randy Van De Griend

Street Crewman/Mechanic
Street Crewman
Street Foreman

PARKS AND RECREATION

Todd Larson
Brian Goslinga

Director
Park Maintenance

MUNICIPAL BUILDINGS

Bill Van Marel, Jr.

Custodian

UTILITIES

Alan De Boer
David Sassman
Michael Klootwyk
Jerry Reuvers
Arlan Scholten
Walt Schwebach
Michael Verdoorn
Alan DeJong
Gerry Bomgaars
Ed De Jong

Electric Line Maintenance Worker I
Water & Wastewater Operator
Electric Line Maintenance Worker II
Water & Wastewater Operator
Electric Department Foreman
Water & Wastewater Foreman
Electric Line Maintenance Worker I
Electric Line Maintenance Worker I
Gas Utility Foreman
Gas Utility Crewman

AIRPORT

Ron Vander Weide

Base Operator

HOSPITAL

Martin W. Guthmiller
Dina Baas

Administrator
Chief Financial Officer

LIBRARY

Karla Chase

Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Orange City,
Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Orange City, Iowa for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council
City of Orange City, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF ORANGE CITY, IOWA (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We did not audit the financial statements of the Orange City Municipal Hospital, (a discretely presented component unit), which statements reflect total assets of \$26,246,442 and total operating revenues of \$23,219,344 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Orange City Municipal Hospital, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the U.S. Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of the other auditors, provides a reasonable basis for our opinions.

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004, on our consideration of the City of Orange City, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying Introductory Section and Statistical Section are presented for purposes of additional analysis and is not a required part of the financial statements of the City of Orange City, Iowa. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

The accompanying combining non-major fund financial statements, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
September 9, 2004

Management's Discussion and Analysis

June 30, 2004

This discussion and analysis of the City of Orange City financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2004. We encourage the readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal on page 7 and the City's financial statements that follow this report.

Financial Highlights

- The assets of the City of Orange City exceeded liabilities at June 30, 2004 by \$27,418,902. Of this amount, \$9,340,264 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$ 372,809 during the year. Of this amount, the assets of our Governmental Activities decreased by \$ 723,188 and the assets of our Business Activities increased \$ 1,095,997.
- The largest factor in the increase in net assets was the profits generated from the municipal utilities.
- The City's long-term debt increased \$ 245,000 due to the issuance of General Obligation Corporate Notes of \$705,000 for capital projects. Outstanding General Obligation debt totals \$ 4,155,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's net assets, which is the difference between assets and liabilities or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, and Parks departments, and general administration. Property Taxes and state and federal grants finances most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here are the City Electric, Water, Sewer, and Natural Gas.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end are available for spending. These funds are reported using the "modified accrual basis" of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.

- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds report and the Business Type Activities we report in the government- wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Funds report.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2004, net assets changed as follows:

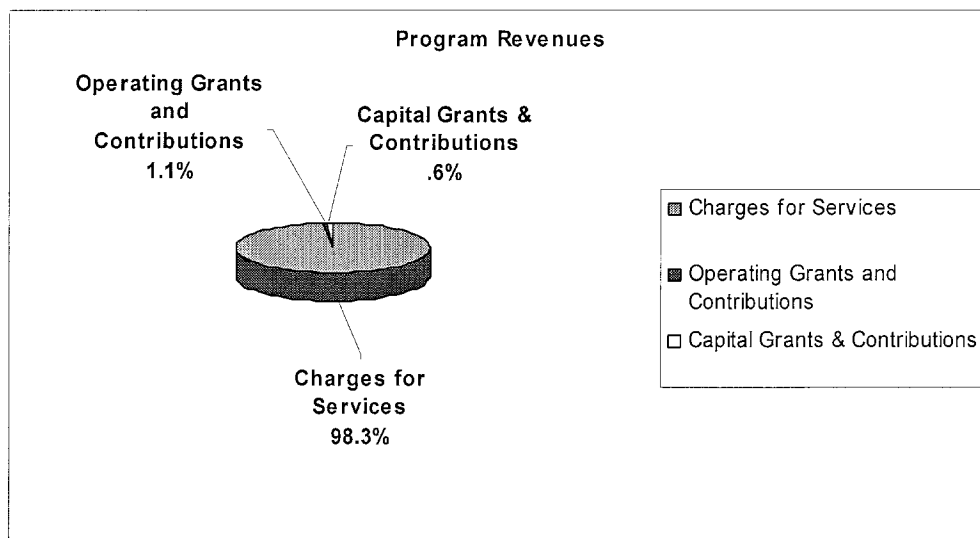
	Governmental Activities	Business- Type Activities	Total
Beginning Net Assets	\$ 11,657,125	\$ 15,388,968	\$ 27,046,093
Increase/(Decrease)	(723,188)	1,095,997	372,809
Ending Net Assets	<u>\$ 10,933,937</u>	<u>\$ 16,484,965</u>	<u>\$ 27,418,902</u>

This summary reflects a decrease of 6.2% for the Governmental Activities and an increase of 7.1% in the Business-Type Activities.

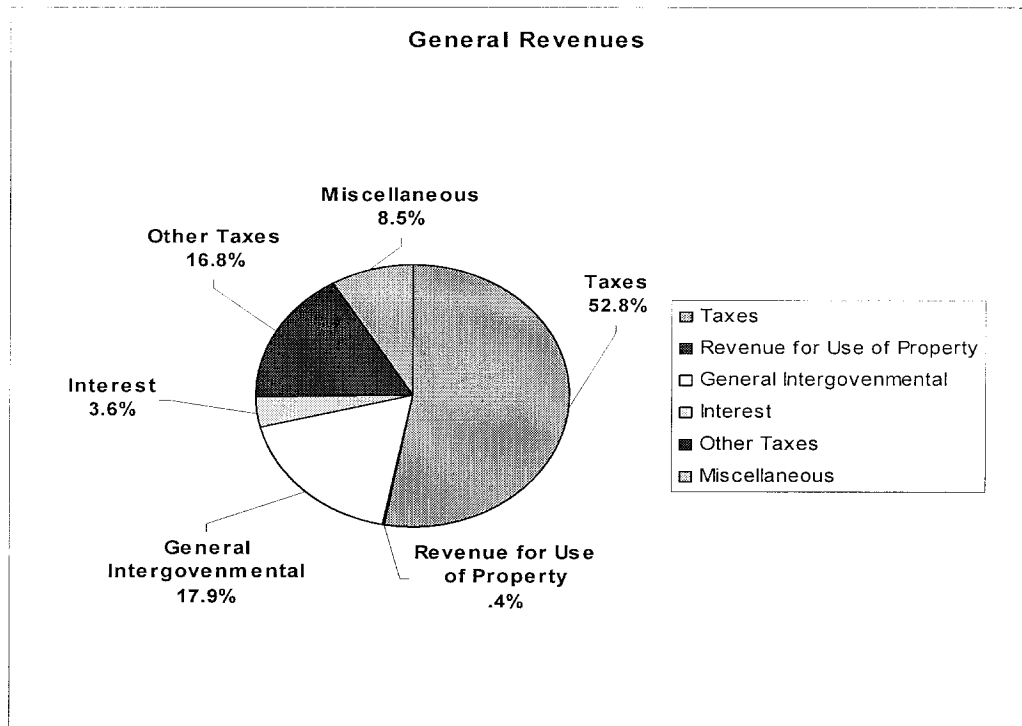
Total revenue reported in Fiscal 2004 was \$12,540,250. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities:

Revenue Source	General Governmental Activities	Business Type Activities	Total
Program Revenues:			
Charges for Service	\$ 440,564	\$ 9,038,721	\$ 9,479,285
Operating Grants & Contributions	53,302		53,302
Capital Grants & Contributions	<u>107,570</u>		<u>107,570</u>
Total Program Revenues	<u>601,436</u>	<u>9,038,721</u>	<u>9,640,157</u>
General Revenues & Interfund Transfers:			
Property Taxes	1,531,410		1,531,410
Other Taxes	66,957		66,957
Local Option Sales Tax	420,939		420,939
Contributions	25,219		25,219
Special Assessments	113,240		113,240
Interest	19,059	84,953	104,012
General Intergovernmental Rev.	518,541		518,541
Use of Property	11,187		11,187
Sale of Fixed Assets	1,555		1,555
Miscellaneous	30,588	76,445	107,033
Interfund Transfer	<u>199,663</u>	<u>(199,663)</u>	<u>-</u>
Total General Revenues & Interfund Transfers	<u>2,938,358</u>	<u>(38,265)</u>	<u>2,900,093</u>
Total Revenues & Interfund Transfers	\$ <u>3,539,794</u>	<u>\$9,000,456</u>	<u>\$12,540,250</u>

Program revenues totaled \$9,640,157 for fiscal year 2004. Governmental Activities provided \$601,436 and Business-Type Activities provided \$9,038,721. Revenue collected for Charges for Services during fiscal year 2004 was \$9,479,285, accounting for 98% of the total program revenues. The following chart breaks down program revenues by source:



General Revenues for fiscal year 2004 totaled \$2,900,093. Governmental Activities provided \$2,938,358 and Business-Type Activities used \$38,265. Property Tax Revenues for fiscal year 2004 totaled \$1,531,410, accounting for 52% of General Revenues. The following chart breaks down General Revenues by source:



Expenditures for Fiscal 2004 totaled \$12,167,441. Expenditures for General Governmental Activities totaled \$4,262,982, accounting for 35% of total expenditures. Business-Type Activity expenditures totaled \$7,904,459, for 65% of the total.

The following table shows total expenditures by Function/Program:

Program Level	General Governmental Activities	Business- Type Activities	Total
Public Safety	\$ 648,483		\$ 648,483
Public Works	1,489,282		1,489,282
Culture and Recreation	1,104,755		1,104,755
Community and Economic Development	88,712		88,712
General Government	436,509		436,509
Debt Service	195,476		195,476
Capital Projects	299,765		299,765
Sewer System		\$ 456,873	456,873
Water System		591,156	591,156
Electric System		3,969,124	3,969,124
Natural Gas System	-	2,887,306	2,887,306
Total Expenditures	\$ 4,262,982	\$ 7,904,459	\$ 12,167,441

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety.....	Individual & Community Protection, Physical Health
Public Works.....	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation.....	Education & Culture, Leisure Time Opportunities
Community and Economic Development..	Economic Development, Community Beautification, Planning and Zoning
General Government.....	Administration, Support Services
Debt Service.....	Payment of Interest
Capital Projects.....	Construction of Capital Facilities
Sewer System.....	Operation of the Waste Water Treatment Plant/Collection System
Water System.....	Operation of Water Treatment Plant/Supply Distribution System
Electric System.....	Operation of Electric Plant/Supply Distribution System
Natural Gas System.....	Operation of Natural Gas Plant/ Supply Distribution System

Since this is the first year to report all activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in future years, this section will explain the differences between the current and prior year's assets, liabilities, revenues, expenditures, and changes in net assets.

Governmental of Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$648,483 and received \$190,584 in revenue, thus leaving a cost to the taxpayer of \$457,899 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$4,262,982. Of these costs, \$440,564 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contribution were \$160,872, leaving a Net Expense of \$3,661,546 for Governmental Activities. These expenses were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provide further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue
Governmental Activities:	
Public Safety	\$ (457,899)
Public Works	(1,312,725)
Health & Social Services	4,283
Culture and Recreation	(952,785)
Community and Economic Development	(75,212)
General Government	(371,967)
Debt Service	(195,476)
Capital Projects	(299,765)
Total Net (Expense) Revenue	
Governmental Activities	(3,661,546)
General Revenues & Interfund Transfers	<u>2,938,358</u>
Change in Net Assests	<u><u>\$ (723,188)</u></u>

In future years, a comparison of previous year's activity will be presented.

Total resources available during the year to finance governmental operations were \$15,196,919, consisting of Net Assets at July 1, 2003 of \$11,657,125, Program Revenues of \$601,436 and General Revenues of \$2,938,358. Total Governmental Activities during the year expended \$4,262,982; thus, Net Assets were decreased by \$723,188, to \$10,933,937.

Business Type Activities

Business Type Activities increased the City's net assets by \$ 1,095,997.

The cost of all Proprietary Activities this year was \$7,904,459. As shown in the Statement of Activities, the amounts paid by users of the systems was \$9,038,721, resulting in total Net Revenue for Business Type Activities of \$1,134,262. The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business Type Activities	Net (Expense) Revenue
Electric System	\$ 567,113
Water System	113,410
Sewer System	264,569
Natural Gas System	<u>189,170</u>
Total Net (Expense) Revenue	
Business Type Activities	1,134,262
General Revenues & Interfund Transfers	<u>(38,265)</u>
Change in Net Assets	\$ <u>1,095,997</u>

Total resources available during the year to finance Proprietary Fund activities were \$24,389,424, consisting of Net Assets at July 1, 2003 of \$15,388,968, Program Revenues of \$9,038,721 and General Revenues of \$(38,265). Total Proprietary Fund Activities during the year expended \$7,904,459; thus Net Assets were increased by \$1,095,997 to \$16,484,965.

As stated above, the comparative nature of this report will be more complete when comparative numbers are available.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$1,221,674. The combined Governmental Funds balance increased \$88,574 from the prior year.

The General Fund is the primary operating fund of the City. During the year, expenditures exceeded revenues in the General fund by \$258,040.

General Fund Budgetary Highlights

Comparing the fiscal year 2004 original (adopted) General Fund amount of \$2,504,502 to the final budget amount of \$2,655,927 shows a net increase of \$151,425.

Original Budget	Supplemental Changes	Amended Budget
\$ 2,504,502	\$ 151,425	\$ 2,655,927

The following table shows the General Fund budget variances by program structure:

Expenditures	Amended Budget	Actual	Variance
Public Safety	\$ 578,095	\$ 613,755	\$ (35,660)
Public Works	664,816	632,850	31,966
Culture and Recreation	867,359	1,021,654	(154,295)
Community and Economic Development	62,645	56,261	6,384
General Government	<u>483,012</u>	<u>430,926</u>	<u>52,086</u>
Total Expenditures	\$ <u>2,655,927</u>	\$ <u>2,755,446</u>	\$ <u>(99,519)</u>

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2004, was \$17,982,929 (net of accumulated depreciation and outstanding financings). The gross additions to capital assets for Fiscal 2004 are as follows:

	Governmental Activities	Business- Type Activities	Total
Buildings	\$ 59,469		59,469
Improvements- Other Bldgs	47,642	\$ 211,700	259,342
Equipment	53,104	117,370	170,474
Construction In Progress	<u>364,601</u>	<u>2,204,899</u>	<u>2,560,835</u>
Total Gross Additions	\$ <u>524,816</u>	\$ <u>2,525,304</u>	\$ <u>3,050,120</u>

For Business-Type Activities, the Construction in progress consisted of costs associated with the electric distribution improvements and water plant expansion.

See Note 6 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end the City had \$12,085,000 of debt outstanding. This is an increase of \$4,355,000 from the prior year.

Debt administration is on track, with over 73% of all City debt repaid within the next 10 years. This rapid repayment, when combined with the use of TIF has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$9,882,991. With outstanding General Obligation Debt applicable to this limit of \$4,127,291, we are utilizing 42% of this limit. More detailed information on debt administration is provided in Note 7 of the financial statements.

ECONOMIC FACTORS

The City of Orange City worked hard in FY 2004 to maintain a positive approach to growth and development. Continued progressive growth in the Orange City community had a positive effect on the City's unemployment and tax base. The growth in Local Option Sales Tax demonstrates that the Orange City's economy continues to grow.

New housing developments in the city include private development, including water, sewer and paving improvements. The City has worked to market the new industrial park located in the south end of town. The City is looking forward to new industry coming to the community.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kent Anderson at 712-707-4885.

CITY OF ORANGE CITY, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Orange City Municipal Hospital
	Activities	Activities		
ASSETS				
Cash and Cash Equivalents	\$ 525,958	\$ 577,570	\$ 1,103,528	\$ 3,103,507
Investments	1,451,671	1,450,000	2,901,671	2,365,327
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	14,557	649,037	663,594	2,648,879
Taxes	4,038	-	4,038	
Subsequent Year Taxes	1,697,673	-	1,697,673	
Accrued Interest	2,975	4,753	7,728	8,547
Other	-	41,528	41,528	249,349
Estimated Unbilled Usage	-	279,995	279,995	
Special Assessments	118,656	-	118,656	
Advances to Other Funds	-	171,516	171,516	
Interfund Balances	(69,219)	69,219	-	
Due from Other Governmental Agencies	101,080	57,565	158,645	
Inventories	15,036	347,192	362,228	481,357
Prepaid Assets	77,593	50,760	128,353	79,189
Investment in Joint Venture	-	2,450,356	2,450,356	
Other	-	-	-	153,148
Restricted Assets, Cash and Investments:				
Cash and Cash Equivalents	-	-	-	111,492
Temporary Cash Investments	68,000	-	68,000	670,000
Revenue Bond Current Debt				
Service Account - Invest.	-	380,000	380,000	
Revenue Bond Future Debt				
Service Account - Invest.	-	809,000	809,000	
Revenue Bond Contingency (Renewal and Replacement)				
Account - Investment	-	100,000	100,000	
Future Capital Reserve	-	1,442,500	1,442,500	
Pledges Receivable	-	-	-	3,011,630
Bond Issue Costs	62,195	121,351	183,546	77,964
Land	809,448	298,316	1,107,764	798,424
Construction in Progress	364,601	4,063,523	4,428,124	1,916,308
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 6)	12,472,799	12,059,242	24,532,041	10,571,321
Total Assets	17,717,061	25,423,423	43,140,484	26,246,442
LIABILITIES				
Accounts Payable	663,993	816,886	1,480,879	1,242,569
Accrued Wages and Compensated Absences	76,202	56,969	133,171	1,081,555
Accrued Expenses	18,740	1,641	20,381	181,049
Customer Deposits	-	29,785	29,785	
Unearned Revenue	-	25,838	25,838	
Deferred Revenue - Subsequent Year Taxes	1,697,673	-	1,697,673	
Advance from Other Funds	171,516	-	171,516	
Payables from Restricted Assets:				
Accrued Interest	-	77,339	77,339	21,391
Revenue Bonds - Current	-	505,000	505,000	570,000
Noncurrent Liabilities:				
Due within one year:				
General Obligation Bonds	505,000	-	505,000	
Capital Lease	-	-	-	55,090
Due in more than one year:				
Revenue Bonds Payable	-	7,425,000	7,425,000	4,025,000
General Obligation Bonds	3,650,000	-	3,650,000	
Capital Lease	-	-	-	10,257
Compensated Absences and Benefits, Long-Term	-	-	-	1,405,510
Total Liabilities	6,783,124	8,938,458	15,721,582	8,592,421
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	9,491,848	8,491,081	17,982,929	8,703,670
Restricted for:				
Debt Service	27,709	-	27,709	778,066
Permanent	68,000	-	68,000	
Donor Restrictions	-	-	-	3,665,164
Unrestricted	1,346,380	7,993,884	9,340,264	4,507,121
Total Net Assets	\$ 10,933,937	\$ 16,484,965	\$ 27,418,902	\$ 17,654,021

See Accompanying Notes to Financial Statements

CITY OF ORANGE CITY, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 648,483	\$ 111,832	\$ 18,214	\$ 60,538
Public Works	1,489,282	154,969	21,588	-
Health and Social Services	-	4,283	-	-
Culture and Recreation	1,104,755	104,938	-	47,032
Community and Economic Development	88,712	-	13,500	-
General Government	436,509	64,542	-	-
Capital Projects	299,765	-	-	-
Debt Service	195,476	-	-	-
Total governmental activities	4,262,982	440,564	53,302	107,570
Business-Type Activities:				
Electric Utility	3,969,124	4,536,237		
Water Utility	591,156	704,566		
Sewer Utility	456,873	721,442		
Gas Utility	2,887,306	3,076,476		
Total Business-Type Activities:	7,904,459	9,038,721	-	-
Total Primary Government	\$ 12,167,441	\$ 9,479,285	\$ 53,302	\$ 107,570
Component Unit:				
Orange City Municipal Hospital	\$ 22,119,604	\$ 23,219,344		

General Revenues:
Property taxes
Other taxes
Local Option Sales Tax
Contributions
Special Assessments
Interest
General Intergovernmental Revenues
Use of property
Gain (Loss) on Sale of Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets			Component Unit Orange City Municipal Hospital
Governmental Activities	Business-Type Activities	Total	
\$ (457,899)		\$ (457,899)	
(1,312,725)		(1,312,725)	
4,283		4,283	
(952,785)		(952,785)	
(75,212)		(75,212)	
(371,967)		(371,967)	
(299,765)		(299,765)	
(195,476)		(195,476)	
<u>(3,661,546)</u>		<u>(3,661,546)</u>	
	\$ 567,113	567,113	
	113,410	113,410	
	264,569	264,569	
	189,170	189,170	
	<u>1,134,262</u>	<u>1,134,262</u>	
<u>(3,661,546)</u>	<u>1,134,262</u>	<u>(2,527,284)</u>	
			\$ 1,099,740
1,531,410	-	1,531,410	254,932
66,957	-	66,957	-
420,939	-	420,939	-
25,219	-	25,219	3,671,203
113,240	-	113,240	-
19,059	84,953	104,012	75,530
518,541	-	518,541	
11,187	-	11,187	
1,555	-	1,555	(21,629)
30,588	76,445	107,033	4,880
199,663	(199,663)	-	
<u>2,938,358</u>	<u>(38,265)</u>	<u>2,900,093</u>	<u>3,984,916</u>
(723,188)	1,095,997	372,809	5,084,656
11,657,125	15,388,968	27,046,093	12,569,365
<u>\$ 10,933,937</u>	<u>\$ 16,484,965</u>	<u>\$ 27,418,902</u>	<u>\$ 17,654,021</u>

CITY OF ORANGE CITY, IOWA
BALANCE SHEET
Governmental Funds
JUNE 30, 2004

	General	Road Use Tax
Assets		
Cash and Pooled Investments	\$ 353,589	\$ 56,490
Investments	901,671	200,000
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	14,557	-
Taxes	2,547	-
Subsequent Year Taxes	910,839	-
Accrued Interest	2,727	-
Special Assessments	118,656	-
Due from Other Governmental Agencies	1,411	37,036
Inventories	-	15,036
Restricted Assets, Cash and Investments:		
Temporary Cash Investments	-	-
Total Assets	<u>2,305,997</u>	<u>308,562</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	278,663	-
Accrued Wages and Compensated Absences	76,202	-
Due to Other Funds	-	-
Unearned Revenue	99,367	-
Deferred Revenue - Subsequent Year Taxes	910,839	-
Advance from Other Funds	-	-
Total Liabilities	<u>1,365,071</u>	<u>-</u>
Fund Balances:		
Reserved for:		
Debt Service	-	-
Perpetual Care	-	-
Inventories	-	15,036
Unreserved	940,926	293,526
Total Fund Balances (Deficits)	<u>940,926</u>	<u>308,562</u>
Total Liabilities and Equity	<u>\$ 2,305,997</u>	<u>\$ 308,562</u>

See Accompanying Notes to Financial Statements

Local Option Sales Tax		Debt Service		Other Governmental Funds		Total Governmental Funds	
\$	56,146	\$	59,332	\$	401	\$	525,958
	350,000		-		-		1,451,671
	-		-		-		14,557
	-		1,491		-		4,038
	-		656,834		130,000		1,697,673
	248		-		-		2,975
	-		-		-		118,656
	62,633		-		-		101,080
	-		-		-		15,036
	-		-		68,000		68,000
	469,027		717,657		198,401		3,999,644
	-		33,114		352,216		663,993
	-		-		-		76,202
	-		-		69,219		69,219
	-		-		-		99,367
	-		656,834		130,000		1,697,673
	-		-		171,516		171,516
	-		689,948		722,951		2,777,970
	-		27,709		-		27,709
	-		-		68,000		68,000
	-		-		-		15,036
	469,027		-		(592,550)		1,110,929
	469,027		27,709		(524,550)		1,221,674
\$	469,027	\$	717,657	\$	198,401	\$	3,999,644

CITY OF ORANGE CITY, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2004

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 27)	\$	1,221,674
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds		13,646,848
Deferred revenues that provide current financial resources for governmental activities		99,367
Accrued expenses from the balance sheet that require current financial resources for governmental activities		(18,740)
Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		62,195
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		77,593
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		<u>(4,155,000)</u>
Total Net Assets - Governmental Activities (page 23)	\$	<u><u>10,933,937</u></u>

See Accompanying Notes to Financial Statements

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CITY OF ORANGE CITY, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2004

	General	Road Use Tax
Revenue:		
Taxes	\$ 880,950	\$ -
Special Assessments	-	-
Licenses and Permits	4,295	-
Intergovernmental	246,013	468,309
Charges for Services	263,521	-
Fines and Forfeits	15,218	-
Contributions from Property Owners	25,219	-
TIF Revenue	-	-
Local Option Sales Tax	-	-
Interest on Investments	16,833	-
Miscellaneous	137,368	-
Total Revenue	<u>1,589,417</u>	<u>468,309</u>
Expenditures:		
Public Safety	613,755	-
Public Works	632,850	-
Culture and Recreation	1,021,654	-
Community and Economic Development	56,261	-
General Government	430,926	-
Capital Projects	-	-
Debt Service:		
Principal Retirement	-	-
Interest	-	-
Total Expenditures	<u>2,755,446</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(1,166,029)</u>	<u>468,309</u>
Other financing sources (uses):		
Proceeds from Debt Financing	-	-
Transfers In	907,989	-
Transfers Out	-	(522,124)
Total other financing sources (uses)	<u>907,989</u>	<u>(522,124)</u>
Net Change in Fund Balance	(258,040)	(53,815)
Fund balances-beginning of year	1,198,966	356,687
Increase in Reserve for Inventory	-	5,690
Fund balances- end of year	<u>\$ 940,926</u>	<u>\$ 308,562</u>

See Accompanying Notes to Financial Statements

Local Option Sales Tax	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 577,659	\$ -	\$ 1,458,609
-	-	109,077	109,077
-	-	-	4,295
-	-	-	714,322
-	-	3,350	266,871
-	-	-	15,218
-	-	-	25,219
-	-	139,758	139,758
420,938	-	-	420,938
249	1,403	574	19,059
-	2,968	22,266	162,602
421,187	582,030	275,025	3,335,968
-	-	-	613,755
-	-	-	632,850
-	-	-	1,021,654
-	-	32,451	88,712
-	-	-	430,926
-	-	716,091	716,091
-	460,000	-	460,000
-	180,734	13,025	193,759
-	640,734	761,567	4,157,747
421,187	(58,704)	(486,542)	(821,779)
-	-	705,000	705,000
-	-	222,124	1,130,113
(408,326)	-	-	(930,450)
(408,326)	-	927,124	904,663
12,861	(58,704)	440,582	82,884
456,166	86,413	(965,132)	1,133,100
-	-	-	5,690
\$ 469,027	\$ 27,709	\$ (524,550)	\$ 1,221,674

CITY OF ORANGE CITY, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 30)	\$	88,574
--	----	--------

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:

Disposition of Capital Assets	\$	(8,154)	
Expenditures for capital assets		524,816	
Depreciation expense		<u>(1,089,477)</u>	(572,815)

Revenues reported in the funds that are not available to provide current financial resources		4,163
--	--	-------

Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources		3,607
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Accrued interest expense that does not require current financial resources		(6,719)
--	--	---------

The issuance of indebtedness provides current financial resources to the governmental funds without affecting net assets. The statement of activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was:		(705,000)
---	--	-----------

The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities		5,002
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The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was:		<u>460,000</u>
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Change in net assets of governmental activities (page 25)	\$	<u>(723,188)</u>
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See Accompanying Notes to Financial Statements

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CITY OF ORANGE CITY, IOWA
COMBINING STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2004

	Business Type Activities		
	Electric Utility	Water Utility	Sewer Utility
ASSETS			
Cash and Cash Equivalents	\$ 6,392	\$ 59,390	\$ 304,845
Investments	-	750,000	500,000
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	407,037	41,591	42,948
Accrued Interest	2,276	658	1,240
Other	37,289	1,870	2,369
Estimated Unbilled Usage	172,784	29,121	17,698
Advances to Other Funds	-	19,198	152,318
Due from Other Funds	-	-	271,137
Due from Other Governmental Agencies	-	57,565	-
Inventories	296,877	25,215	-
Prepaid Assets	20,595	13,157	9,079
Investment in Joint Venture	1,825,356	625,000	-
Restricted Assets:			
Revenue Bond Current Debt			
Service Account - Investment	120,000	175,000	60,000
Revenue Bond Future Debt			
Service Account - Investment	212,000	281,000	150,000
Revenue Bond Contingency (Renewal and Replacement)			
Account - Investment	-	100,000	-
Future Capital Reserve	1,442,500	-	-
Bond Issue Costs	32,357	44,524	16,421
Land	27,539	21,624	249,153
Construction in Progress	1,961,653	2,101,870	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	3,747,166	2,619,284	4,122,866
Total Assets	10,311,821	6,966,067	5,900,074
LIABILITIES			
Accounts Payable	404,192	117,492	11,166
Accrued Wages and Compensated Absences	33,737	10,029	5,564
Accrued Expenses	1,641	-	-
Customer Deposits	21,450	-	-
Due to Other Funds	-	-	-
Unearned Revenue	-	25,838	-
Payables from Restricted Assets:			
Accrued Revenue Bond Interest	12,067	44,690	10,006
Revenue Bonds - Current	115,000	140,000	170,000
Noncurrent Liabilities:			
Due in more than one year:			
Revenue Bonds Payable	2,005,000	2,670,000	1,170,000
Total Liabilities	2,593,087	3,008,049	1,366,736
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,616,358	1,932,778	3,032,019
Unrestricted	4,102,376	2,025,240	1,501,319
Total Net Assets	\$ 7,718,734	\$ 3,958,018	\$ 4,533,338

Business Type Activities			
	Gas Utility		Total
\$	206,943	\$	577,570
	200,000		1,450,000
	157,461		649,037
	579		4,753
	-		41,528
	60,392		279,995
	-		171,516
	-		271,137
	-		57,565
	25,100		347,192
	7,929		50,760
	-		2,450,356
	25,000		380,000
	166,000		809,000
	-		100,000
	-		1,442,500
	28,049		121,351
	-		298,316
	-		4,063,523
	1,569,926		12,059,242
	2,447,379		25,625,341
	284,036		816,886
	7,639		56,969
	-		1,641
	8,335		29,785
	201,918		201,918
	-		25,838
	10,576		77,339
	80,000		505,000
	1,580,000		7,425,000
	2,172,504		9,140,376
	(90,074)		8,491,081
	364,949		7,993,884
\$	274,875	\$	16,484,965

CITY OF ORANGE CITY, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Electric Utility	Water Utility
Operating Revenues:		
Charges for Services	\$ 4,536,237	\$ 704,566
Total Operating Revenue	<u>4,536,237</u>	<u>704,566</u>
Operating Expenses:		
Production	2,762,320	118,833
Transmission	220,700	325
Distribution / Collection	355,914	105,321
Administrative and General	210,044	120,317
Depreciation	284,930	137,588
Total Operating Expenses	<u>3,833,908</u>	<u>482,384</u>
Operating Income	702,329	222,182
Non-Operating Income (Expense):		
Interest Income	16,661	25,424
Other Non-operating Revenues	57,534	9,513
Interest Expense	(68,992)	(108,772)
Other Non-operating Expenses	(66,224)	
Total Non-Operating Income (Expenses)	<u>(61,021)</u>	<u>(73,835)</u>
Income before Transfers	641,308	148,347
Transfers Out	<u>(164,663)</u>	<u>(10,000)</u>
Change in Net Assets	476,645	138,347
Net Assets - Beginning	<u>7,242,089</u>	<u>3,819,671</u>
Net Assets - Ending	<u>\$ 7,718,734</u>	<u>\$ 3,958,018</u>

See Accompanying Notes to Financial Statements

Business Type Activities		
Sewer Utility	Gas Utility	Total
\$ 721,442	\$ 3,076,476	\$ 9,038,721
721,442	3,076,476	9,038,721
	2,543,114	5,424,267
		221,025
129,929	125,228	716,392
94,773	77,963	503,097
161,002	57,250	640,770
385,704	2,803,555	7,505,551
335,738	272,921	1,533,170
39,685	3,183	84,953
7,565	1,833	76,445
(71,169)	(83,751)	(332,684)
		(66,224)
(23,919)	(78,735)	(237,510)
311,819	194,186	1,295,660
(25,000)		(199,663)
286,819	194,186	1,095,997
4,246,519	80,689	15,388,968
\$ 4,533,338	\$ 274,875	\$ 16,484,965

CITY OF ORANGE CITY, IOWA
COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Electric Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 4,447,726	\$ 723,027
Cash Paid to Suppliers for Goods and Services	(3,309,885)	(367,595)
Cash Paid to Employees for Services	(392,967)	(189,452)
Other Nonoperating Income	57,534	9,513
Other Nonoperating Expenses	(66,224)	
Net Cash Provided by Operating Activities	<u>736,184</u>	<u>175,493</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
(Increase) in Investment in Joint Venture	(30,331)	(500,000)
Acquisition and Construction of Capital Assets	(834,022)	(1,621,963)
Proceeds from Bond Sales	2,120,000	2,810,000
Bond Issuance Costs	(34,980)	(46,365)
Principal Paid on Notes and Bonds	-	(775,000)
Interest Paid on Notes and Bonds	(54,302)	(73,527)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>1,166,365</u>	<u>(206,855)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating Transfers From (To) Other Funds	(164,663)	(10,000)
Advances From (To) Other Funds		164,402
Due From (To) Other Funds	(265,639)	(72,222)
Net Cash Provided (Used) for Non-Capital Financing Activities	<u>(430,302)</u>	<u>82,180</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Securities	(2,982,000)	(3,485,000)
Proceeds from Sale of Investment Securities	1,500,000	3,460,000
Interest and Dividends on Investments	15,657	33,473
Net Cash Provided (Used) for Investing Activities	<u>(1,466,343)</u>	<u>8,473</u>
Net Increase in Cash and Cash Equivalents	5,904	59,291
Cash and Cash Equivalents at Beginning of Year	<u>488</u>	<u>99</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,392</u>	<u>\$ 59,390</u>

See Accompanying Notes to Financial Statements

Business Type Activities		
Sewer Utility	Gas Utility	Total
\$ 733,677	\$ 3,043,434	\$ 8,947,864
(96,914)	(2,493,079)	(6,267,473)
(130,721)	(112,387)	(825,527)
7,565	1,833	76,445
		(66,224)
<u>513,607</u>	<u>439,801</u>	<u>1,865,085</u>
		(530,331)
(82,453)	(44,430)	(2,582,868)
	1,735,000	6,665,000
	(30,363)	(111,708)
(160,000)	(1,620,000)	(2,555,000)
(64,438)	(84,730)	(276,997)
<u>(306,891)</u>	<u>(44,523)</u>	<u>608,096</u>
(25,000)		(199,663)
342,271		506,673
(161,294)	164,297	(334,858)
<u>155,977</u>	<u>164,297</u>	<u>(27,848)</u>
(1,250,000)	(391,000)	(8,108,000)
1,150,000	-	6,110,000
42,152	2,604	93,886
<u>(57,848)</u>	<u>(388,396)</u>	<u>(1,904,114)</u>
304,845	171,179	541,219
-	35,764	36,351
<u>\$ 304,845</u>	<u>\$ 206,943</u>	<u>\$ 577,570</u>

CITY OF ORANGE CITY, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2004

	Business Type Activities	
	Electric Utility	Water Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income	<u>\$ 702,329</u>	<u>\$ 222,182</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	284,930	137,588
Other Non-Operating Income	57,534	9,513
Other Non-Operating Expenses	(66,224)	
(Increase) Decrease in Assets:		
Accounts Receivable	(61,956)	(9,727)
Other	(31,578)	2,350
Inventories	16,406	5,938
Prepaid Expenses	3,437	1,140
Increase (Decrease) in Liabilities		
Accounts Payable	(173,254)	(217,939)
Accrued Wages and Compensated Absences	3,818	118
Accrued Expenses	(4,281)	(1,508)
Customer Deposits	5,023	
Unearned Revenue		25,838
Total Adjustments	<u>33,855</u>	<u>(46,689)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 736,184</u></u>	<u><u>\$ 175,493</u></u>

See Accompanying Notes to Financial Statements

Business Type Activities		
Sewer Utility	Gas Utility	Total
\$ 335,738	\$ 272,921	\$ 1,533,170
161,002	57,250	640,770
7,565	1,833	76,445
		(66,224)
		-
11,540	(37,927)	(98,070)
695		(28,533)
	(12,771)	9,573
(461)	(5,336)	(1,220)
(123)	158,387	(232,929)
(169)	559	4,326
(2,180)		(7,969)
	4,885	9,908
		25,838
177,869	166,880	331,915
\$ 513,607	\$ 439,801	\$ 1,865,085

CITY OF ORANGE CITY, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
Agency Funds
June 30, 2004

ASSETS

Cash and Cash Equivalents	\$	39,053
Accounts Receivable		<u>660</u>

Total Assets		<u>39,713</u>
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LIABILITIES

Accounts Payable		11,245
Due to Bond Holders		<u>28,468</u>

Total Liabilities		<u>39,713</u>
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NET ASSETS

Unrestricted		<u>-</u>
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Total Net Assets	\$	<u><u>-</u></u>
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See Accompanying Notes to Financial Statements

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Orange City, Iowa is a political subdivision of the State of Iowa located in Sioux County, and was incorporated in 1884, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Council-Manager form of government and administers the following programs as authorized by its charter: public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides electric, water, sewer and gas utilities.

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statement include the following:

For the first time:

- a. A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and result of operations.
- b. Financial statements prepared using full accrual accounting for all the City's activities.
- c. A change in the fund financial statements to focus on the major funds of the City.

Also approved by GASB was Statement No. 38, *Certain Financial Statement Note Disclosures*.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The City has implemented the statements for the year ended June 30, 2004.

A. Reporting Entity

For financial reporting purposes, the City of Orange City, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These financial statements present the City of Orange City, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Discretely Presented Component Unit - The Orange City Municipal Hospital's financial data is reported in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City. Orange City Area Health Foundation is a component unit of the Orange City Municipal Hospital, so the Foundation's financial data is combined with the Hospital's financial data.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards and Commissions: Sioux County Conference Board, Sioux County Emergency Management Commission, and Sioux County Joint E911 Service Board.

B. Basic Financial Statements-Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's general, special revenue, debt service, capital projects and permanent funds are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first uses restricted resources to finance qualifying activities.

The Government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (public safety, public works, health and social services, culture and recreation, community and economic development, general government, etc.) and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenue, operating grants, and capital grants. Program revenue must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The City does not allocate indirect costs.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year activities.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues or receipts, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City electively added funds, as major funds, which had a specific community focus. The non-major funds are combined into a single column in the fund financial statements.

The City reports the following major governmental funds:

Governmental Fund Types – The governmental fund financial statements are reported using the current financial resources measurement focus. This means that the focus of the governmental funds' measurement is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.

- 2) Special Revenue Funds

The Road Use Tax Fund is used to account for the operation of street maintenance and construction financed by allocations of state fuel taxes.

The Local Option Sales Tax Fund is used to account for the collection of a 1% local option sales tax to be expended for Capital Improvement/Community Betterment Projects.

- 3) Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

- 1) **Enterprise Funds** – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City maintains several business-type activities. The major enterprise funds are listed as follows:

The Electric Fund is used to account for the operation and maintenance of the City's electric systems.

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's sewer system.

The Gas Fund is used to account for the operation and maintenance of the City's gas system.

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City's agency funds include the payroll clearing fund and the puddlejumper trail special assessment fund to account for repayment of special assessment bonds with no governmental commitment.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Accrual basis of accounting is used for all activities in the government-wide financial statements and for the proprietary and fiduciary activities in the fund financial statements. Revenues are recognized when earned and expenses are recognized when incurred.

Modified accrual basis of accounting is used by all governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures are recorded when the related fund liability is incurred. An exception to this general rule is that principal and interest on general obligation debt, if any, is recognized when due.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

E. Budgets

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the public safety, culture and recreation, debt service, and capital projects functions.

F. Cash And Cash Equivalents And Investments

The City is authorized by statute to invest public funds not currently needed for operating expenses in notes, certificates, bonds, prime eligible bankers acceptances, certain high rated commercial paper, perfected repurchase agreements, or other evidences of indebtedness which are obligations of or guaranteed by the United States of America or any of its agencies, or in time deposits or savings accounts in depositories approved by the City Council.

1) Cash and Cash Equivalents

Includes investments with original maturities of three months or less.

2) Investments

The City and its component unit use the following methods in determining the reported amounts.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<u>City</u>	<u>Type</u>	<u>Method</u>
	Nonnegotiable Certificates of Deposit	Cost
	Iowa Public Agency Investment Trust	Fair Value determined by current share price
<u>Component Unit</u>		
	Interest-earning investment contracts	
	Nonnegotiable certificates of deposit	Cost
	Open-end mutual funds	
	(governmental external investment pool registered	Fair Value determined by
	As an investment company)	current share price
	Publicly traded mutual funds	Fair Value based on quoted market prices
	Debt Securities	
	Negotiable certificates of deposit and U.S. Government	
	Agency Securities	
	Maturity of one year or less when purchased	Amortized cost
	Maturity to more than one year when purchased	Fair Value based on quoted Market prices

G. Property Tax Receivable

Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2002. Any county collections on the 2003-2004 tax levy remitted to the City within 60 days subsequent to June 30, 2004, are recorded as property tax revenue.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2004, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

I. Inventories

Inventories of governmental funds are valued at cost using FIFO while those of enterprise funds are valued using the average cost method. For fund level reporting, the cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in the governmental funds are equally offset by a fund balance reserve which indicates they do not constitute available spendable resources even though they are a component of net current assets. Inventory of the discretely presented component unit is valued at cost using FIFO.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items.

K. Restricted Assets

Revenue bond ordinances require the City to reserve certain cash and investments to provide for payment of bonds and interest, for protection of bondholders, and for extension and improvement of facilities. These balances are separately disclosed in the Enterprise Funds. Other restricted assets include temporary cash investments for the perpetual care fund.

L. Property and Equipment

Assets with an initial individual cost of \$5,000 or more are considered capital assets. Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure has been capitalized using historical or estimated historical cost of \$25,000 or more beginning in 1980 as required by GASB 34. Depreciation on all assets is provided on the straight-line basis over the following estimated lives:

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Buildings & Improvements	25 – 50 Years
Land Improvements	20 – 50 Years
Utility Plant	20 – 33 Years
Machinery & Equipment	3 - 20 Years
Vehicles	5 – 20 Years
Infrastructure	10 – 65 Years

M. Compensated Absences

Vested or accumulated vacation leave including related employee benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

N. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

O. Fund Equity

Reserves represent those portions of fund equity legally segregated for a specific future use.

P. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

Q. Landfill Closure Costs

The City does not operate a sanitary landfill; therefore, no closure/post closure costs are included in these statements.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2004, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or the City's agency in the City's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Deposits at June 30, 2004, are shown below:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fair Value</u>	<u>Bank Balance</u>
Demand Deposits	\$ 1,102,904	\$3,214,999	\$ 4,317,903	\$ 4,008,196
Savings Deposits	62,295	10,160	72,455	72,455
Time Deposits	5,639,500	3,025,167	8,664,667	9,109,640
	<u>\$ 6,804,699</u>	<u>\$6,250,326</u>	<u>\$13,055,025</u>	<u>\$13,190,291</u>

The primary government's investments and the component unit's investments are categorized to give an indication of the level of risk assumed by the City and component unit at year-end. At June 30, 2004, the City's investments and component unit's investments, except mutual funds, are in a category characterized as investments that are insured or registered or for which the securities are held by the City or the component unit or its agent in the City's or component unit's name. The component unit's mutual fund investments are in a category characterized as investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the component unit's name. The City and its component unit did not hold any investments at June 30, 2004.

There were no significant changes in investments held during the fiscal year ended June 30, 2004.

Note 3 - PLEDGES RECEIVABLES

At June 30, 2004, the component unit's Foundation pledges receivable consisted of pledges restricted for the building of a new health campus and are discounted at 3.4%. An allowance has been established to offset future uncollectible pledges and has been estimated by management to be \$200,000 as of June 30, 2004.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 3 - PLEDGES RECEIVABLES

A summary of the activity in pledges receivable for the year ended June 30, 2004 is as follows:

Pledges made during the year	\$4,142,188
Pledge payments received	(650,108)
Discount of future payments receivable	(280,450)
Allowance for uncollectible pledges receivable	(200,000)
Total	<u>\$3,011,630</u>

Pledges receivable at June 30, 2004, are expected to be received as follows:

Year Ending June 30	
2005	\$ 895,554
2006	865,424
2007	865,424
2008	865,678
	<u>3,492,080</u>
Less allowance and discounts on pledges receivable	(480,450)
Total	<u>\$3,011,630</u>

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2004, amounts due from other governments were as follows:

Due from the Iowa Department of Transportation for road use tax allocations	\$ 37,036
Due from the State of Iowa for local option sales taxes	62,632
Due from the State of Iowa for liquor license	618
Due from the State of Iowa for sales tax refund on the water plant capital project	57,565
Due from the Sioux County Clerk of Court for local fines	794
Total Due from Other Governments	<u>\$ 158,645</u>

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2004, short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Proprietary Fund – Sewer	Nonmajor Governmental Funds	\$ 69,219
Proprietary Fund – Sewer	Proprietary Fund – Gas	201,918
		<u>\$ 271,137</u>

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 5 - INTERFUND RECEIVABLES AND PAYABLES – (Continued)

As of June 30, 2004 long-term advances were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Proprietary Fund – Sewer	Nonmajor Governmental Funds	\$ 152,318
Proprietary Fund – Water	Nonmajor Governmental Funds	19,198
		<u>\$ 171,516</u>

Note 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Primary Government	Balance July 1, 2003 as Restated (Note 20)	Additions	Deletions	Balance June 30, 2004
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 809,448	-	-	\$ 809,448
Construction in Progress	-	\$ 364,601	-	364,601
Total capital assets not being depreciated	<u>809,448</u>	<u>364,601</u>	<u>-</u>	<u>1,174,049</u>
Capital assets being depreciated:				
Buildings	4,330,215	59,469	-	4,389,684
Improvements	1,024,353	47,642	-	1,071,995
Equipment	1,488,056	53,104	\$ 20,385	1,520,775
Infrastructure	27,096,076	-	-	27,096,076
Total capital assets being depreciated	<u>33,938,700</u>	<u>160,215</u>	<u>20,385</u>	<u>34,078,530</u>
Less: Accumulated Depreciation for:				
Buildings	1,825,257	136,198	-	1,961,455
Improvements	881,407	17,366	-	898,773
Equipment	948,675	82,741	12,231	1,019,185
Infrastructure	16,873,146	853,172	-	17,726,318
Total Accumulated Depreciation	<u>20,528,485</u>	<u>1,089,477</u>	<u>12,231</u>	<u>21,605,731</u>
Total capital assets being depreciated, net	<u>13,410,215</u>	<u>(929,262)</u>	<u>8,154</u>	<u>12,472,799</u>
Governmental activities capital assets, net	<u>\$ 14,219,663</u>	<u>\$ (564,661)</u>	<u>\$ 8,154</u>	<u>\$ 13,646,848</u>

Construction in progress at June 30, 2004, for the governmental activities consisted of costs associated with the 2004 Street Project and the Hospital Street Extension.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - CAPITAL ASSETS – (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 298,316	-	-	\$ 298,316
Construction in Progress	1,867,289	\$2,196,234	-	4,063,523
Total capital assets not being depreciated	2,165,605	2,196,234	-	4,361,839
Capital assets being depreciated:				
Buildings	1,192,364	-	-	1,192,364
Improvements	80,560	-	-	80,560
Equipment	1,882,617	117,370	-	1,999,987
Utility Plant	19,598,081	211,700	-	19,809,781
Total capital assets being depreciated	22,753,622	329,070	-	23,082,692
Less: Accumulated Depreciation	10,382,680	640,770	-	11,023,450
Total capital assets being depreciated, net	12,370,942	(311,700)	-	12,059,242
Business-type activities capital assets, net	\$ 14,536,547	\$1,884,534	-	\$16,421,081

Construction in progress at June 30, 2004 consisted of costs associated with the electric system improvements, the water system improvements.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 46,741
Public Works	896,829
Culture and Recreation	133,963
General Government	11,944
Total depreciation expense – governmental activities	<u>1,089,477</u>
Business-Type Activities:	
Electric	284,930
Water	137,588
Sewer	161,002
Gas	57,250
Total depreciation expense – business-type activities	<u>\$ 640,770</u>

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 6 - CAPITAL ASSETS – (Continued)

A summary of changes in capital assets for the discretely presented component unit is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Component Unit:				
Capital assets not being depreciated:				
Land	\$ 798,424	-	-	\$ 798,424
Construction in Progress	30,500	\$ 1,885,808	-	1,916,308
Total capital assets not being depreciated	828,924	1,885,808	-	2,714,732
Capital assets being depreciated:				
Land Improvements	321,734	7,285	-	329,019
Buildings	10,524,378	8,894	-	10,533,272
Fixed Equipment	3,378,212	-	-	3,378,212
Major Movable Equipment	6,084,338	979,860	\$ 516,579	6,547,619
Total capital assets being depreciated	20,308,662	996,039	516,579	20,788,122
Less: Accumulated Depreciation	9,682,448	1,023,553	489,200	10,216,801
Total capital assets being depreciated, net	10,626,214	(27,514)	27,379	10,571,321
Component unit capital assets, net	\$11,455,138	\$ 1,858,294	\$ 27,379	\$ 13,286,053

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$809,448	\$298,316	\$798,424
Construction in Progress	364,601	4,063,523	1,916,308
Capital Assets (net of accumulated depreciation)	12,472,799	12,059,242	10,571,321
Less: General Obligation Bonds Payable	4,155,000	-	-
Notes Payable	-	2,810,000	4,517,036
Revenue Bonds	-	5,120,000	-
Capital Lease	-	-	65,347
Investment in Capital Assets, Net of Related Debt	\$9,491,848	\$8,491,081	\$8,703,670

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and projects. General obligation bonds have been issued for governmental activities. These bonds are direct obligations and pledge the full faith and credit of the City.

The City issued two new bonds during 2004:

On March 1, 2004, the City sold \$300,000 general obligation corporate purpose notes with interest rates ranging from 1.45% to 3.80% and an average life of 5.99 years. The bonds were sold to Ruan Securities for \$294,270 and the proceeds were used to finance the 2003 Street Improvement Project.

On June 1, 2004, the City sold \$405,000 general obligation refunding notes with interest rates ranging from 3.35% to 5.30% and an average life of 4.08 years. The bonds were sold to Ruan Securities for \$398,278 and the proceeds were used to finance the Puddlejumper I and II Projects and the Theater Area Project.

General obligation bonds outstanding as of June 30, 2004 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
Governmental Activities	1.45-6.10%	\$ 3,500,000
Governmental Activities – Refunding	2.40-3.50%	655,000
		<u>\$ 4,155,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2005	\$ 505,000	\$ 172,583	\$ 677,583
2006	595,000	151,947	746,947
2007	610,000	129,418	739,418
2008	595,000	105,075	700,075
2009	445,000	80,595	525,595
2010-2014	1,015,000	181,941	1,196,941
2015-2019	390,000	42,050	432,050
Total	<u>\$ 4,155,000</u>	<u>\$ 863,609</u>	<u>\$ 5,018,609</u>

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (Continued)

Revenue Bonds

The City also has issued revenue bonds where the City pledges income derived from the acquired or constructed asset to pay debt service.

The City issued three new bonds during 2004:

On August 1, 2003, the City sold \$2,120,000 electric revenue capital loan notes with interest rates ranging from 1.50% to 4.50% and an average life of 8.82 years. The bonds were sold to Ruan Securities for \$2,086,336 and the proceeds were used to finance the sub station and conversion improvements.

On August 1, 2003, the City sold \$2,810,000 water revenue capital loan notes with interest rates ranging from 1.60% to 5.10% and an average life of 10.87 years. The bonds were sold to Ruan Securities for \$2,766,056 and the proceeds were used to finance the refunding of 1993 water revenue bonds water treatment plan expansion.

On July 1, 2003, the City sold \$1,735,000 gas revenue capital loan notes with interest rates ranging from 1.75% to 4.80% and an average life of 9.72 year. The bonds were sold to Ruan Securities for \$1,704,717 and the proceeds were used to finance the refunding of 2002 gas revenue project notes and various gas capital projects.

Revenue bonds outstanding at June 30, 2004 are as follows:

Primary Government

Purpose	Interest Rates	Amounts
Electric SRF	1.50-4.50%	\$ 2,120,000
Water SRF	1.60-5.10%	2,810,000
Sewer SRF	4.45-5.30%	1,000,000
Sewer Refunding	2.50-3.30%	340,000
Gas SRF	1.75-4.80%	1,660,000
		<u>\$ 7,930,000</u>

Component Unit

Purpose	Interest Rates	Amounts
Hospital/Component Unit	4.80-6.00%	\$ 595,000
Hospital/Component Unit	4.80-6.00%	3,855,000
Hospital/Component Unit	4.40-5.00%	145,000
		<u>\$ 4,595,000</u>

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (Continued)

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Business-Type Activities				Interest	Total
	Electric Principal	Water Principal	Sewer Principal	Gas Principal		
2005	\$ 115,000	\$ 140,000	\$ 170,000	\$ 80,000	\$ 301,170	\$ 806,170
2006	120,000	145,000	170,000	80,000	289,985	804,985
2007	120,000	150,000	90,000	85,000	277,180	722,180
2008	120,000	155,000	95,000	85,000	264,519	719,519
2009	125,000	160,000	100,000	90,000	250,193	725,193
2010-2014	685,000	555,000	580,000	495,000	1,003,818	3,318,818
2015-2019	835,000	670,000	135,000	605,000	503,391	2,748,391
2020-2024	-	835,000	-	140,000	115,061	1,090,061
Total	\$ 2,120,000	\$ 2,810,000	\$ 1,340,000	\$ 1,660,000	\$ 3,005,317	\$ 10,935,317

Year Ending June 30,	Component Unit Activities		Total
	Principal	Interest	
2005	\$570,000	\$256,688	\$826,688
2006	600,000	226,973	826,973
2007	235,000	195,398	430,398
2008	245,000	182,708	427,708
2009	260,000	169,355	429,355
2010-2014	1,535,000	612,516	2,147,516
2015-2019	1,150,000	139,390	1,289,390
Total	\$4,595,000	\$1,783,028	\$6,378,028

Advance and Current Refundings

In October 2002, the City issued \$1,655,000 in sewer revenue bonds with interest rates ranging from 2.50% to 3.30% to refund the 1992 sewer revenue bonds with interest rates ranging from 3.80% to 6.10%. The City refunded the debt to reduce its total debt service payments over the next three years by \$28,053 and to obtain an economic gain of \$9,000.

In November 2002, the City issued \$940,000 in General Obligation Capital Loan Notes with interest rates ranging from 2.40% to 3.50% to refund the 1993 General Obligation Capital Loan Notes with interest rates ranging from 2.80% to 5.60%. The City refunded the debt to reduce its total debt service payments over the next six years by \$46,921 and to obtain an economic gain of \$1,400.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 7 - LONG-TERM DEBT – (Continued)

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
Revenue Bonds	\$ 3,910,000	\$ 705,000	\$ 460,000	\$ 4,155,000	\$ 505,000
Governmental Activity Long-Term Liabilities	3,910,000	705,000	460,000	4,155,000	505,000
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	2,275,000	6,665,000	1,010,000	7,930,000	505,000
Anticipation Note	1,545,000	-	1,545,000	-	-
Total Bonds Payable	3,820,000	6,665,000	2,555,000	7,930,000	505,000
Business-Type Activity Long-Term Liabilities	3,820,000	6,665,000	2,555,000	7,930,000	505,000
Component Unit:					
Bonds Payable:					
Revenue Bonds	5,140,000	-	545,000	4,595,000	570,000
Compensated Absences	898,243	507,267	-	1,405,510	-
Total Bonds Payable	6,038,243	507,267	545,000	6,000,510	570,000
Capital Lease Obligations	118,829	-	53,482	65,347	55,090
Component Unit Long-Term Liabilities	\$ 6,157,072	\$ 507,267	\$ 598,482	\$ 6,065,857	\$ 625,090

Note 8 - CAPITAL LEASES

The component unit has entered into two agreements to acquire medical equipment under capital leases. The related liability under the leases at June 30, 2004 is \$69,726, net of unamortized interest of \$4,379. The obligation under the first lease calls for monthly installments of \$3,554, through June, 2005, including interest at a rate of 6.70%. The obligation under the second lease calls for monthly installments of \$1,564 through February, 2006, including interest at a rate of 5.90%. The total amount capitalized under the leases is \$261,318 with related accumulated amortization of \$198,449 at June 30, 2004.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 9 - TRANSFERS

The following is a summary of transfers between funds:

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total Transfers Out</u>
Road Use Tax	\$ 300,000	\$ 222,124	\$ 522,124
Local Option Sales Tax	408,326		408,326
Water	10,000		10,000
Sewer	25,000		25,000
Electric	164,663		164,663
Total Transfers In	\$ 907,989	\$ 222,124	\$1,130,113

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Use unrestricted revenues collected in proprietary funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 10 - PENSION AND RETIREMENT

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual covered salary and the City is required to contribute 5.75 percent of annual covered payroll except for, police and fire employees, in which case, the percentages are 5.93 percent and 8.90 percent, respectively, and law employees who are covered by another plan. Contribution requirements are established by state statute. The City contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$85,349, \$82,001, and \$74,667, respectively, equal to the required contributions for each year.

In addition, the component unit contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$588,124, \$554,799, and \$484,075, respectively, equal to the required contributions for each year.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 11 - MAJOR CUSTOMER

During the year ended June 30, 2004, electric, water, sewer, and gas charges for services provided by the City to Advanced Brands, Inc. were \$983,391, \$140,755, \$214,794 and \$815,113, respectively. This represents 22%, 20%, 38% and 26%, respectively, of total charges for services. Charges for services provided by the electric utility of the City to American Identity, Inc. was \$247,409, which represents 5% of total charges for services.

Note 12 - RESERVES

The following schedule reflects all reservations of fund balances as presented in the fund level statements:

	Inventories	Debt Service	Endowments	Total
Special Revenue				
Road Use Tax	\$ 15,036			\$ 15,036
Debt Service		\$ 27,709		27,709
Permanent Fund				
Cemetery Perpetual Care			\$ 68,000	68,000
Total Reserves of Fund				
Balances	\$ 15,036	\$ 27,709	\$ 68,000	\$ 110,745

Note 13 - DEFICIT FUND EQUITY

The City has six funds with deficit equity balances at June 30, 2004. The City intends to finance these deficits from various resources including; road use tax funds, general funds, special assessments, water fund reserves, and capital project debt financing.

The individual fund deficits were as follows:

Special Revenue – TIF	\$171,115
Capital Project – 2004 Street Project.....	358,408
Capital Project – Puddlejumper 3 rd Addition.....	27,719
Capital Project – Industrial Park Improvements	20,374
Capital Project – 14 th Street Expansion.....	8,741
Capital Project – Hospital Street Expansion.....	6,193

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 14 - RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the 2003-2004 fiscal year the City has elected to purchase commercial insurance to cover against the risk of loss. There have been no reductions in insurance coverage from prior years, nor were there settlements in excess of insurance coverage the last three years.

Note 15 - COMMITMENTS

During the year ended June 30, 2004, the City had entered into several construction contracts totaling approximately \$5,242,000 of which approximately \$4,999,000 has been expended to date. The remaining balance will be paid as work progresses.

Note 16 - INVESTMENT IN JOINT VENTURE

The City is a participant in the Missouri Basin Municipal Electric Cooperative Association, a joint venture for the construction and maintenance of power lines from the Northwest Iowa Power Cooperative to the City Limits. The construction of the lines is accomplished by NIPCO and there are no actual dedicated lines, but rather an agreement which guarantees the municipalities the right to draw power over the lines at a raw power cost without transmission charges. The City owns a 27.23 percent share of the venture with twelve other cities sharing in the ownership at varying percentages. The City's investment in the joint venture is accounted for by the equity method in the Electric Fund.

Summary financial information of the joint venture for the year ended December 31, 2003 follows:

	Total
Assets	<u>\$8,323,460</u>
Liabilities	655,181
Equity	<u>7,668,279</u>
	<u>8,323,460</u>
Revenues.....	939,730
Expenses	1,089,780
Net (Decrease) in Equity	<u>\$ (150,050)</u>

The joint venture has no outstanding debt. Separately issued financial statements for the joint venture can be obtained directly from the MBMECA administrative offices.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 16 - INVESTMENT IN JOINT VENTURE – (Continued)

The City is a participant in the Orange City Communications, a joint venture for the construction and maintenance of a high-speed data internet and telecommunications system. The City owns 33.3 percent share of the venture with Northwest Rural Electric Cooperative, and Long Lines Limited, Inc. sharing equally in the ownership. Summary financial information of the joint venture for the eighteen months ended June 30, 2004 is as follows:

	Total
Assets	<u>\$4,031,909</u>
Liabilities	2,972,407
Equity	<u>1,059,502</u>
	<u>4,031,909</u>
Revenues.....	<u>644,420</u>
Expenses	<u>708,830</u>
Net (Decrease) in Equity	<u>\$ (64,410)</u>

Note 17 - CONDUIT DEBT OBLIGATIONS

The City has issued Private College Revenue Bonds to provide financial assistance for the acquisition, construction, equipping and furnishing of a three-story women's residence hall to accommodate approximately 204 students. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the non-profit corporation entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2004, the Private College Revenue Bonds outstanding have an aggregate principal amount payable of \$700,000.

Note 18 - SPECIAL ASSESSMENT DEBT OBLIGATION

The City administered the issuance of special assessment bonds in 2002 to provide funds for the Puddlejumper View Addition. The amount outstanding is \$125,000. The government is in no way liable for repayment of this debt and is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings.

CITY OF ORANGE CITY, IOWA
Notes to Financial Statements
June 30, 2004

Note 19 - SUBSEQUENT EVENTS

On October 4, 2004, the City Council passed a resolution authorizing the issuance of \$20,000,000 Taxable Subordinate Hospital Revenue Capital Loan Notes Anticipation Project Notes. Only \$2,000,000 of this has been borrowed to date.

In December, 2004, the City Council approved the issuance of \$3,500,000 General Obligation Capital Loan Notes, Series 2004E.

Note 20 - ACCOUNTING CHANGE

For the year ended June 30, 2004, the City implemented Governmental Auditing Standards Board (GASB) Statements Number 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". The statement creates new basic financial statements for reporting on the City's financial activities. The significant changes in these financial statements include: the recording and depreciation of capital assets, the elimination of internal revenue and expense charges, and the removal of capital-related items from revenues and expenditures.

The beginning net asset amount in the statement of activities reflects the change in net assets caused by the conversion to full accrual, which records depreciation on capital assets.

The City also revised its capitalization policy. The threshold for capitalizing assets increased to \$5,000 from \$500. The policy applies the threshold to individual items and not to items in the aggregate. These result in a restatement of the beginning balance for capital assets.

Capital Assets	Balance Beginning of Year	Adjustments	Restated Balance
Land	\$ 809,448		\$ 809,448
Buildings	2,733,481	\$ 1,596,734	4,330,215
Improvements	2,890,840	(1,866,487)	1,024,353
Equipment	1,873,504	(385,448)	1,488,056
Infrastructure	27,096,076	-	27,096,076
Construction in Progress	-	-	-
Total	<u>\$ 35,403,349</u>	<u>\$ (655,201)</u>	<u>\$ 34,748,148</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ORANGE CITY, IOWA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS - ACCRUAL BASIS
Year Ended June 30, 2004

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Amended		
Revenue:				
Taxes	\$ 962,098	\$ 962,098	\$ 880,950	\$ (81,148)
Licenses and Permits	2,810	2,810	4,295	1,485
Intergovernmental	185,061	185,061	246,013	60,952
Charges for Services	227,600	227,600	263,521	35,921
Fines and Forfeits	13,500	13,500	15,218	1,718
Contributions from Property Owners	10,000	10,000	25,219	15,219
Local Option Sales Tax		-	-	-
Interest	16,900	16,900	16,833	(67)
Miscellaneous	56,400	56,400	137,368	80,968
Total Revenue	1,474,369	1,474,369	1,589,417	115,048
Expenditures:				
Public Safety	573,095	578,095	613,755	(35,660)
Public Works	656,541	664,816	632,850	31,966
Culture and Recreation	751,309	867,359	1,021,654	(154,295)
Community and Economic Development	62,645	62,645	56,261	6,384
General Government	460,912	483,012	430,926	52,086
Total Expenditures	2,504,502	2,655,927	2,755,446	(99,519)
Excess (deficiency) of revenues over expenditures	(1,030,133)	(1,181,558)	(1,166,029)	15,529
Other financing sources (uses):				
Interfund Transfers In	813,000	813,000	907,989	94,989
Interfund Transfers Out		-	-	-
Total other financing sources (uses)	813,000	813,000	907,989	94,989
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (217,133)	\$ (368,558)	(258,040)	\$ 110,518
Fund balances-beginning of year			1,198,966	
Increase/(Decrease) in Reserve for Inventory			-	
Fund balances- end of year			\$ 940,926	

Road Use Tax			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Amended		
\$	-	\$	-
	-	-	-
425,000	425,000	468,309	43,309
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
425,000	425,000	468,309	43,309
	-	-	-
	-	-	-
	-	-	-
	-	-	-
-	-	-	-
425,000	425,000	468,309	43,309
-	-	-	-
(550,000)	(550,000)	(522,124)	27,876
(550,000)	(550,000)	(522,124)	27,876
<u>\$ (125,000)</u>	<u>\$ (125,000)</u>	(53,815)	<u>\$ 71,185</u>
		356,687	
		5,690	
		<u>\$ 308,562</u>	

Local Option Sales Tax			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Amended		
\$	-	\$	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	420,938	420,938
	-	-	-
	-	249	249
-	-	421,187	421,187
	-	-	-
	-	-	-
	-	-	-
	-	-	-
-	-	-	-
-	-	421,187	421,187
-	-	-	-
(325,000)	(325,000)	(408,326)	(83,326)
(325,000)	(325,000)	(408,326)	(83,326)
<u>\$ (325,000)</u>	<u>\$ (325,000)</u>	12,861	<u>\$ 337,861</u>
		456,166	
		-	
		<u>\$ 469,027</u>	

CITY OF ORANGE CITY, IOWA
Notes to Required Supplementary Information
June 30, 2004

The City's legal compliance for budget to actual comparison is specified in Chapter 384.16 of the Code of Iowa and is for expenditures by program/function. The City budgets on a modified accrual basis. The legal level of control is at the aggregated function level, not at the fund or fund type level. Budgets are prepared on a program basis for all funds except the agency funds.

During the fiscal year 2004, the City held public hearings and amended the operating budget once. The amendment is as follows:

<u>Program</u>	<u>Original Budget</u>	<u>5/17/04 Amendment</u>	<u>Amended Budget</u>
Public Safety	\$ 573,095	\$ 5,000	\$ 578,095
Public Works	656,541	8,275	664,816
Culture & Recreation	751,309	116,050	867,359
Community & Economic Development	177,645	-	177,645
General Government	460,912	22,100	483,012
Debt Service	649,042	-	649,042
Capital Projects	395,000	-	395,000
Business Type/Enterprise	31,572,511	-	31,572,511
Total	<u>\$ 35,236,055</u>	<u>\$ 151,425</u>	<u>\$ 35,387,480</u>

The following schedule demonstrates the City's legal compliance to the budget and includes the component unit.

<u>Program</u>	<u>Amended Budget</u>	<u>Actual (Accrual Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety	\$ 578,095	\$ 613,755	\$ (35,660)
Public Works	664,816	632,850	31,966
Culture & Recreation	867,359	1,021,654	(154,295)
Community & Economic Development	177,645	88,712	88,933
General Government	483,012	430,926	52,086
Debt Service	649,042	653,759	(4,717)
Capital Projects	395,000	716,091	(321,091)
Business Type/Enterprise (including Component unit)	31,572,511	30,024,063	1,548,448
Total	<u>\$35,387,480</u>	<u>\$34,181,810</u>	<u>\$ 1,205,670</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ORANGE CITY, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
JUNE 30, 2004

	Special Revenue	Capital Projects	
	TIF	2004 Street Project	2003 Street Project
Assets			
Cash and Pooled Investments	\$ 401	\$ -	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)			
Subsequent Year Taxes	130,000	-	-
Restricted Assets, Cash and Investments:			
Temporary Cash Investments	-	-	-
Total Assets	130,401	-	-
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	-	317,101	-
Due to Other Funds	-	41,307	-
Deferred Revenue - Subsequent Year Taxes	130,000	-	-
Advance from Other Funds	171,516	-	-
Total Liabilities	301,516	358,408	-
Fund Balances:			
Reserved for:			
Perpetual Care	-	-	-
Unreserved	(171,115)	(358,408)	-
Total Fund Balances (Deficits)	(171,115)	(358,408)	-
Total Liabilities and Equity	\$ 130,401	\$ -	\$ -

Library Project	Capital Projects				Permanent Fund		Total Governmental Nonmajor Funds
	Puddlejumper 3rd Addition	Industrial Park Improvement	14th Street Expansion	Hospital Street Expansion	Cemetery Perpetual Care Fund		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	401
-	-	-	-	-	-	-	130,000
-	-	-	-	-	-	68,000	68,000
-	-	-	-	-	-	68,000	198,401
-	1,007	19,174	8,741	6,193	-	-	352,216
-	26,712	1,200	-	-	-	-	69,219
-	-	-	-	-	-	-	130,000
-	-	-	-	-	-	-	171,516
-	27,719	20,374	8,741	6,193	-	-	722,951
-	-	-	-	-	68,000	-	68,000
-	(27,719)	(20,374)	(8,741)	(6,193)	-	-	(592,550)
-	(27,719)	(20,374)	(8,741)	(6,193)	68,000	-	(524,550)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,000	\$ 198,401

CITY OF ORANGE CITY, IOWA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Governmental Nonmajor Funds

JUNE 30, 2004

	Special Revenue	Capital Projects	
	TIF	2004 Street Project	2003 Street Project
Revenue:			
Special Assessments	\$ -	\$ -	\$ 109,077
Charges for Services	-	-	-
TIF Revenue	139,758	-	-
Interest on Investments	354	-	220
Miscellaneous	1,475	-	-
Total Revenue	141,587	-	109,297
Expenditures:			
Community and Economic Development	32,451	-	-
Capital Projects	-	358,408	242,931
Debt Service:			
Interest	7,075	-	5,950
Total Expenditures	39,526	358,408	248,881
Excess (deficiency) of revenues over expenditures	102,061	(358,408)	(139,584)
Other financing sources (uses):			
Proceeds from Debt Financing	405,000	-	300,000
Transfers In	-	-	222,124
Total other financing sources (uses)	405,000	-	522,124
Net Change in Fund Balance	507,061	(358,408)	382,540
Fund balances-beginning of year	(678,176)	-	(382,540)
Fund balances- end of year	\$ (171,115)	\$ (358,408)	\$ -

Library Project	Capital Projects				Hospital Street Expansion	Permanent Fund Cemetery Perpetual Care Fund	Total Governmental Nonmajor Funds
	Puddlejumper 3rd Addition	Industrial Park Improvement	14th Street Expansion				
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,077
-	-	-	-	-	-	3,350	3,350
-	-	-	-	-	-	-	139,758
-	-	-	-	-	-	-	574
20,791	-	-	-	-	-	-	22,266
20,791	-	-	-	-	-	3,350	275,025
-	-	-	-	-	-	-	32,451
51,725	27,719	20,374	8,741	6,193	-	-	716,091
-	-	-	-	-	-	-	13,025
51,725	27,719	20,374	8,741	6,193	-	-	761,567
(30,934)	(27,719)	(20,374)	(8,741)	(6,193)	3,350	-	(486,542)
-	-	-	-	-	-	-	705,000
-	-	-	-	-	-	-	222,124
-	-	-	-	-	-	-	927,124
(30,934)	(27,719)	(20,374)	(8,741)	(6,193)	3,350	-	440,582
30,934	-	-	-	-	64,650	-	(965,132)
\$ -	\$ (27,719)	\$ (20,374)	\$ (8,741)	\$ (6,193)	\$ 68,000	\$ -	\$ (524,550)

CITY OF ORANGE CITY, IOWA
 COMBINING STATEMENT OF NET ASSETS
 Agency Funds
 JUNE 30, 2004

	Puddlejumper View Addition	Payroll Clearing	Total
ASSETS			
Cash and Cash Equivalents	\$ 28,468	\$ 10,585	\$ 39,053
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	-	660	660
Total Assets	<u>28,468</u>	<u>11,245</u>	<u>39,713</u>
LIABILITIES			
Accounts Payable	-	11,245	11,245
Due to Bond Holders	28,468	-	28,468
Total Liabilities	<u>28,468</u>	<u>11,245</u>	<u>39,713</u>
NET ASSETS			
Unrestricted	-	-	-
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ORANGE CITY, IOWA
Combining Statement of Changes in Assets and Liabilities
Fiduciary Funds
Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>PUDDLEJUMPER VIEW ADDITION</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 20,080	\$ 57,338	\$ 48,950	\$ 28,468
Total Assets	20,080	57,338	48,950	28,468
<u>Liabilities</u>				
Due to Bond Holders	20,080	57,338	48,950	28,468
Total Liabilities	\$ 20,080	\$ 57,338	\$ 48,950	\$ 28,468
<u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 12,733	\$ 452,120	\$ 454,268	\$ 10,585
Accounts Receivable	-	660		660
Total Assets	12,733	452,780	454,268	11,245
<u>Liabilities</u>				
Accounts Payable	12,733	452,780	454,268	11,245
Total Liabilities	\$ 12,733	\$ 452,780	\$ 454,268	\$ 11,245
<u>ALL FIDUCIARY FUNDS TOTAL</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 32,813	\$ 509,458	\$ 503,218	\$ 39,053
Accounts Receivable		660		660
Total Assets	32,813	510,118	503,218	39,713
<u>Liabilities</u>				
Accounts Payable	12,733	452,780	454,268	11,245
Due to Bond Holders	20,080	57,338	48,950	28,468
Total Liabilities	\$ 32,813	\$ 510,118	\$ 503,218	\$ 39,713

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CITY OF ORANGE CITY, IOWA

TABLE I

**General Governmental Expenditures By Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

YEAR	COMMUNITY PROTECTION/ PUBLIC SAFETY	HUMAN DEVELOPMENT/ CULTURE & REC	HOME & COMM. ENV./ PUBLIC WORKS	COMMUNITY & ECONOMIC DEVELOPMENT	GENERAL ADMIN./ GENERAL GOV'T	DEBT SERVICE	TOTAL
1994-95	\$ 316,302	\$ 391,220	\$ 529,771		\$ 314,551	\$ 255,790	\$ 1,807,634
1995-96	314,246	480,942	678,876		345,821	327,332	2,147,217
1996-97	493,423	496,799	719,994		266,636	321,196	2,298,048
1997-98	367,967	527,512	733,927		394,169	378,326	2,401,901
1998-99	413,439	586,394	507,471		398,812	389,542	2,295,658
1999-00	482,036	593,836	565,238		428,233	457,376	2,526,719
2000-01	493,456	646,586	718,103		473,607	458,578	2,790,330
2001-02	558,701	721,484	671,812		408,551	502,215	2,862,763
2002-03	557,292	844,072	593,620	90,525	378,758	1,493,249	3,957,516
2003-04	\$ 613,755	\$ 1,021,654	\$ 632,850	\$ 88,712	\$ 430,926	\$ 640,734	\$ 3,428,631

TABLE II

**General Governmental Revenues By Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

YEAR	TAXES	PERMITS AND LICENSES	INTER- GOVERNMENTAL REVENUES	CHARGES FOR SERVICES	FINES AND FORFEITURES	USE OF MONEY AND MISCELLANEOUS	TOTAL
1994-95	1,052,627	2,273	423,050	160,472	10,949	188,674	1,838,045
1995-96	999,831	2,748	624,014	180,045	12,637	217,197	2,036,472
1996-97	1,137,153	3,246	777,615	178,587	14,807	234,583	2,345,991
1997-98	1,135,823	4,085	779,141	196,557	14,982	241,227	2,371,815
1998-99	1,144,338	3,390	951,821	191,302	15,624	518,236	2,824,711
1999-00	1,279,348	3,090	880,347	215,495	12,272	448,291	2,838,843
2000-01	1,346,538	3,260	944,302	240,468	11,245	308,254	2,854,067
2001-02	1,494,782	3,903	1,268,449	245,300	11,106	162,541	3,186,081
2002-03	1,568,136	4,614	1,219,247	260,756	17,213	256,130	3,326,096
2003-04	1,598,367	4,295	1,135,260	266,871	15,218	182,519	3,202,530

TABLE III

**Property Tax Levies and Collections
Last Ten Fiscal Years**

COLLECTION YEAR	TOTAL TAX LEVY	CURRENT TAX COLLECTIONS	PERCENT OF LEVY COLLECTED	DELINQUENT TAX COLLECTIONS	TOTAL TAX COLLECTIONS	COLLECTIONS AS PERCENT OF CURRENT LEVY
1994-95	1,063,442	1,052,627	98.98%	0	1,052,627	98.98%
1995-96	997,562	997,562	100.00%	2,269	999,831	100.23%
1996-97	1,147,991	1,137,153	99.06%	0	1,137,153	99.06%
1997-98	1,113,402	1,123,646	100.92%	0	1,123,646	100.92%
1998-99	1,110,343	1,120,959	100.96%	0	1,120,959	100.96%
1999-00	1,226,920	1,245,319	101.50%	0	1,245,319	101.50%
2000-01	1,255,218	1,289,639	102.74%	0	1,289,639	102.74%
2001-02	1,353,294	1,428,917	105.59%	0	1,428,917	105.59%
2002-03	1,411,665	1,467,196	103.93%	0	1,467,196	103.93%
2003-04	1,514,760	1,531,410	101.10%	0	1,531,410	101.10%

CITY OF ORANGE CITY, IOWA

TABLE IV

Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

COLLECTION YEAR	REAL PROPERTY		UTILITIES		TOTAL		% TO VALUE
	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	ASSESSED VALUE	ESTIMATED ACTUAL VALUE	
1994-95	93,360,258	119,798,248	852,827	852,827	94,213,085	120,651,075	78.09%
1995-96	97,057,402	125,216,088	951,092	978,399	98,008,494	126,194,487	77.66%
1996-97	98,741,889	145,059,999	991,915	991,915	99,733,804	146,051,914	68.29%
1997-98	100,186,974	148,270,270	1,124,292	1,124,292	101,311,266	149,394,562	67.81%
1998-99	101,038,194	158,694,012	1,063,653	1,063,653	102,101,847	159,757,665	63.91%
1999-00	104,685,474	160,812,584	998,026	998,026	105,683,500	161,810,610	65.31%
2000-01	106,177,613	167,587,570	386,645	386,645	106,564,258	167,974,215	63.44%
2001-02	111,996,353	172,401,657	345,740	345,740	112,342,093	172,747,397	65.03%
2002-03	114,153,308	187,368,989	405,828	405,828	114,559,136	187,774,817	61.01%
2003-04	121,880,002	197,777,207	457,062	457,062	122,337,064	198,234,269	61.71%

TABLE V

Property Tax Rates And Tax Levies
Direct and Overlapping Governments
Last Ten Fiscal Years

YEAR	CITY	TAX RATES PER \$1,000			TOTAL
		SCHOOL DISTRICT	COUNTY CONSOL.	VOCATIONAL SCHOOL	
1994-95	11.20011	12.60212	3.34554	0.48888	27.63665
1995-96	11.90268	12.65737	3.21859	0.49391	28.27255
1996-97	11.48854	11.90448	3.05065	0.49625	26.93992
1997-98	10.98992	12.74785	2.89956	0.49080	27.12813
1998-99	10.86640	12.78543	3.08408	0.47864	27.21455
1999-00	11.62220	12.47836	3.53387	0.48192	28.11635
2000-01	11.60193	12.39183	3.53287	0.52226	28.04889
2001-02	11.77898	12.15324	3.51674	0.53380	27.98276
2002-03	12.04619	12.60600	3.93682	0.54774	29.13675
2003-04	12.32259	12.78323	4.64743	0.65433	30.40758

TAX LEVIES

1994-95	1,063,442	1,196,562	317,657	46,418	2,624,079
1995-96	997,562	1,240,530	315,449	48,407	2,601,948
1996-97	1,147,991	1,187,279	304,253	49,493	2,689,016
1997-98	1,113,402	1,291,501	293,758	49,724	2,748,385
1998-99	1,110,343	1,306,432	315,135	48,908	2,780,818
1999-00	1,226,920	1,310,453	373,605	55,230	2,966,208
2000-01	1,255,218	1,295,101	374,759	56,884	2,981,962
2001-02	1,353,294	1,416,184	442,271	61,534	3,273,283
2002-03	1,411,665	1,464,436	532,406	74,960	3,483,467
2003-04	1,678,225	1,740,959	632,938	89,114	4,141,236

CITY OF ORANGE CITY, IOWA

TABLE VI

Principal Taxpayers

TAXPAYER	TYPE OF BUSINESS	ESTIMATED ACTUAL VALUE	PERCENTAGE OF TOTAL ESTIMATED ACTUAL VALUE
VOGEL ENTERPRISES, LTD	MANUFACTURING	\$8,503,743	7.42%
AMERICAN IDENTITY, INC.	MANUFACTURING	7,859,280	6.86%
ORANGE CITY MUNICIPAL HOSPITAL	HEALTH CARE	3,990,260	3.48%
ADVANCED BRANDS, LLC	MANUFACTURING	3,290,197	2.87%
SOUTH TOWN REAL ESTATE, INC	REAL ESTATE DEVELOPMENT	1,836,392	1.60%
IOWA STATE BANK	BANK	1,441,130	1.26%
NORTH WEST RURAL ELECTRIC COOPERATIVE UTILITY		1,433,464	1.25%
KRULL LTD	REAL ESTATE DEVELOPMENT	1,363,155	1.19%
NORTHWESTERN STATE BANK	BANK	1,183,816	1.03%
PIONEER MEMORIAL HOME	REAL ESTATE DEVELOPMENT	1,179,442	1.03%
	TOTAL	32,080,879	28.00%
	ALL OTHERS	82,478,257	72.00%
		<u>\$ 114,559,136</u>	<u>100.00%</u>

TABLE VII

Computation of Legal Debt Margin

June 30, 2004

2002-03 ESTIMATED ACTUAL VALUATION:		
REAL ESTATE	\$197,202,749	
UTILITIES	457,062	
	<u>\$197,659,811</u>	
DEBT LIMIT - 5% OF ESTIMATED ACTUAL VALUATION		\$9,882,991
AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT		
GENERAL BONDED DEBT	16,680,000	
LESS:		
* REVENUE BONDS	<u>12,525,000</u>	
	4,155,000	
AMOUNT AVAILABLE FOR REPAYMENT OF GENERAL OBLIGATION DEBT	<u>27,709</u>	
TOTAL DEBT APPLICABLE TO DEBT LIMIT		<u>4,127,291</u>
LEGAL DEBT MARGIN		<u>\$5,755,700</u>

CITY OF ORANGE CITY, IOWA
TABLE VIII

**Special Assessment Collections
Last Ten Fiscal Years**

Fiscal Year	Current Assessments Due	Current Assessments Collected	Percentage of Collections to Amount Due	Total Outstanding Current and Delinquent Assessments
1994-95	\$13,677	\$13,501	99%	\$86,316
1995-96	14,039	14,007	100%	66,017
1996-97	12,410	13,378	108%	166,516
1997-98	14,763	26,650	181%	139,866
1998-99	11,940	38,253	320%	111,813
1999-00	12,078	24,410	202%	126,690
2000-01	10,849	31,793	293%	114,491
2001-02	9,998	20,409	204%	98,245
2002-03	12,116	22,518	186%	113,952
2003-04	12,896	25,219	196%	112,264

TABLE IX

**Ratio Of Net General Bonded Debt To
Assessed Value And Net Bonded Debt Per Capita
Last Ten Fiscal Years**

LEVY YEARS	POP-ULATION	ASSESSED VALUE	GROSS BONDED DEBT	LESS DEBT SERVICE FUNDS	NET BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA	NET BONDED DEBT TO ASSESSED VALUE
1994-95	4,940	\$94,213,085	\$2,795,000	\$83,361	\$2,731,639	.0155 TO 1	\$552.96	1.55%
1995-96	4,940	98,008,494	2,605,000	14,814	2,590,186	.0473 TO 1	524.33	4.73%
1996-97	4,940	99,733,804	2,845,000	58,520	2,786,480	.0455 TO 1	564.06	4.55%
1997-98	4,940	101,311,266	2,610,000	66,147	2,543,853	.0480 TO 1	514.95	4.80%
1998-99	4,940	102,181,290	2,925,000	39,582	2,885,418	.0382 TO 1	584.09	3.82%
1999-00	4,940	105,751,334	2,915,000	43,236	2,871,764	.0330 TO 1	581.33	3.30%
2000-01	5,582	106,564,258	2,905,000	52,136	2,852,864	.0300 TO 1	511.08	3.00%
2001-02	5,582	112,342,093	3,105,000	69,792	3,035,208	.0325 TO 1	543.75	3.25%
2002-03	5,582	114,559,136	3,910,000	86,413	3,823,587	.0394 TO 1	684.99	3.94%
2003-04	5,582	122,337,064	4,155,000	51,637	4,103,363	.0444 TO 1	735.11	4.44%

TABLE X

**Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years**

Fiscal Year	Principal	Fees and Interest	Total Debt Service	Total* General Expenditures	Ratio of Debt Service to Total General Expenditures
1994-95	\$150,000	\$105,790	\$255,790	\$1,807,574	14.15%
1995-96	190,000	137,332	327,332	2,147,217	15.24%
1996-97	195,000	126,196	321,196	2,298,048	13.98%
1997-98	235,000	143,326	378,326	2,401,861	15.75%
1998-99	250,000	139,542	389,542	2,295,658	16.97%
1999-00	310,000	147,376	457,376	2,526,718	18.10%
2000-01	310,000	148,578	458,578	2,790,330	16.43%
2001-02	350,000	152,215	502,215	2,862,763	17.54%
2002-03	1,335,000	158,249	1,493,249	3,957,516	37.73%
2003-04	460,000	213,847	673,847	4,262,982	15.81%

* General, Special Revenue, Debt Service Funds

CITY OF ORANGE CITY, IOWA
TABLE XI
Computation of Direct and Overlapping Debt
June 30, 2004

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to this Governmental Unit	City of Le Mars Share of Debt
CITY OF ORANGE CITY, IOWA	\$4,127,291	100.00%	\$4,127,291
MAURICE-ORANGE CITY COMMUNITY SCHOOL DISTRICT	950,000	57.50%	546,250
	<u>\$5,077,291</u>		<u>\$4,673,541</u>

TABLE XII
Sewer Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenue*	Operating Expenses**	Net Rev. Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-95	455,656	105,030	350,626	90,000	110,350	200,350	1.75
1995-96	478,046	106,865	371,181	95,000	105,593	200,593	1.85
1996-97	484,749	104,605	380,144	120,000	77,892	197,892	1.92
1997-98	469,749	141,239	328,510	120,000	72,107	192,107	1.71
1998-99	466,349	186,786	279,563	120,000	66,069	186,069	1.50
1999-00	514,048	267,632	246,416	125,000	58,390	183,390	1.34
2000-01	534,232	193,088	341,144	130,000	51,890	181,890	1.88
2001-02	639,941	201,980	437,961	135,000	87,819	222,819	1.97
2002-03	644,207	238,419	405,788	155,000	81,103	236,103	1.72
2003-04	768,692	224,702	543,990	160,000	64,438	224,438	2.42

* Operating revenues including interest

** Operating Expenses Exclusive of Depreciation and Amortization

CITY OF ORANGE CITY, IOWA
TABLE XIII
Electric Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenue*	Operating Expenses**	Net Rev. Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-95	3,235,603	2,479,364	756,239	180,000	124,222	304,222	2.49
1995-96	3,382,617	2,518,810	863,807	195,000	132,590	327,590	2.64
1996-97	3,338,646	2,390,793	947,853	205,000	162,534	367,534	2.58
1997-98	3,332,699	2,459,694	873,005	220,000	99,067	319,067	2.74
1998-99	3,338,937	2,443,695	895,242	255,000	55,263	310,263	2.89
1999-00	3,635,445	2,850,215	785,230	260,000	42,388	302,388	2.60
2000-01	3,876,350	3,032,551	843,799	275,000	31,149	306,149	2.76
2001-02	4,015,734	3,217,049	798,685	285,000	21,933	306,933	2.60
2002-03	4,331,927	3,387,989	943,938	300,000	6,360	306,360	3.08
2003-04	4,610,432	3,548,978	1,061,454	-	54,302	54,302	19.55

* Operating Revenues Including Interest

** Operating Expenses Exclusive of Depreciation and Amortization

TABLE XIV
Water Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenue*	Operating Expenses**	Net Rev. Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-95	569,156	226,240	342,916	80,000	74,503	154,503	2.22
1995-96	567,703	230,702	337,001	80,000	70,691	150,691	2.24
1996-97	567,736	185,774	381,962	85,000	66,665	151,665	2.52
1997-98	593,859	245,608	348,251	85,000	62,616	147,616	2.36
1998-99	588,751	388,558	200,193	90,000	58,351	148,351	1.35
1999-00	704,782	317,028	387,754	95,000	53,755	148,755	2.61
2000-01	644,716	391,896	252,820	100,000	49,271	149,271	1.69
2001-02	669,022	379,238	289,784	105,000	44,129	149,129	1.94
2002-03	698,186	367,933	330,253	105,000	39,129	144,129	2.29
2003-04	739,503	344,796	394,707	115,000	18,655	133,655	2.95

* Operating Revenues Including Interest

** Operating Expenses Exclusive of Depreciation and Amortization

TABLE XV
Demographic Statistics
Last Ten Fiscal Years

FISCAL YEAR	(1) POPULATION	PER CAPITA INCOME	SCHOOL (2) ENROLLMENT	UNEMPLOYMENT RATE (%) (3)
1994-95	4,940	\$10,592	839	1.4%
1995-96	4,940	10,592	N/A	1.4%
1996-97	4940	10,592	N/A	1.4%
1997-98	4940	10,592	N/A	1.4%
1998-99	4940	10,592	N/A	1.4%
1999-00	4940	10,592	N/A	1.4%
2000-01	5582	25,335	1,392	2.6%
2001-02	5582	25,335	N/A	2.6%
2002-03	5582	25,335	N/A	2.6%
2003-04	5582	25,335	N/A	2.6%

(1) BUREAU OF CENSUS

(2) LEMARS COMMUNITY SCHOOL DISTRICT

(3) JOB SERVICE OF IOWA

(4) STATE OF IOWA LIBRARY CENSUS

(N/A) NOT AVAILABLE

CITY OF ORANGE CITY, IOWA
TABLE XVI
Property Value Construction And Bank Deposits
Last Ten Fiscal Years

YEAR	(1) COMMERCIAL CONSTRUCTION		(1) RESIDENTIAL CONSTRUCTION		(2) BANK
	UNITS	VALUE	UNITS	VALUE	DEPOSITS
1994-95	7	3,657,000	38	2,197,000	87,015,000
1995-96	8	575,500	39	3,178,890	86,129,000
1996-97	8	5,601,880	33	1,730,000	92,698,000
1997-98	3	680,000	35	2,354,600	124,110,000
1998-99	11	1,617,500	30	2,528,000	130,537,000
1999-2000	17	3,959,222	29	3,527,161	135,471,000
2000-01	14	10,078,450	33	2,490,106	171,532,000
2001-02	13	6,273,716	32	1,756,475	245,117,000
2002-03	15	5,020,066	45	4,037,181	250,321,000
2003-04	7	619,200	44	2,948,460	267,291,000

(1) INCLUDES NEW CONSTRUCTION AND REMODELING (SOURCE: LOCAL BUILDING PERMITS ISSUED)
(2) COMBINED DEPOSITS IN THREE BANKS (SOURCE: BANK MANAGEMENT)

TABLE XVII
COMPARISON OF TAXES AND INTERGOVERNMENTAL REVENUES
YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001, 2000

	2004	2003	2002	2001	2000
PROPERTY TAX	\$ 1,458,609	\$ 1,568,136	\$ 1,494,782	\$ 1,346,538	\$ 1,279,348
INTERGOVERNMENTAL:					
ROAD USE TAX	468,309	450,967	451,776	410,004	404,728
STATE POPULATION ALLOCATION		66,073	69,638	68,470	72,124
BANK FRANCHISE TAX	30,664	41,424	19,521	18,280	17,389
LOCAL OPTION SALES TAX	420,938	406,868	384,073	370,099	335,397
OTHER	162,602	258,529	120,979	69,997	50,709
	<u>2,541,122</u>	<u>2,791,997</u>	<u>2,540,769</u>	<u>2,283,388</u>	<u>2,159,695</u>

CITY OF ORANGE CITY, IOWA
TABLE XVIII
Miscellaneous Statistics
June 30, 2004

Date of Incorporation	1884
Form of Government	Mayor-Council with appointed City Administrator
Area in Square Miles	2.6
Miles of Streets	46
Number of Street Lights	459
Fire Protection:	
Number of Stations	1
Number of Volunteer Fireman	30
Police Protection:	
Number of Stations	1
Number of Policeman and Officers	7
Education:	
Number of Schools	2 Public (Elementary, High School) 2 Private (Elementary, High School) 1 Private College (approx. 1,495)
Municipal Water Department:	
Number of Consumers	1,722
Average Daily System Consumption	646,960 gallons
Miles of Water Mains	43
Miles of Sewers:	
Sanitary Sewers	39
Storm Sewers	17
Building Permits Issued 2003-04	45
Recreation and Culture:	
Number of Parks	4
Number of Libraries	1
Number of Volumes	34,200



21 1st Avenue NW
P.O. Box 1010
Le Mars, IA 51031
Phone (712) 546-7801
Fax (712) 546-6543

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Orange City, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF ORANGE CITY, IOWA as of and for the year ended June 30, 2004, which collectively comprise the City of Orange City, Iowa's basic financial statements, and have issued our report thereon dated September 9, 2004. We did not audit the financial statements of the Orange City Municipal Hospital, a discretely presented component unit, which statements reflect total assets of \$26,246,442 and total operating revenues of \$23,219,344 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on these financial statements, insofar as it relates to the amounts included for the Orange City Municipal Hospital, was based solely on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in

the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all matters in the internal control that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.


Certified Public Accountants

September 9, 2004
Le Mars, Iowa

CITY OF ORANGE CITY, IOWA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Reportable Conditions and Instances of Non-Compliance:

None in current year.

There were no prior year findings or instances of non-compliance.

Part III: Other Findings Related to Required Statutory Reporting

III-A-04 - Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

III-B-04 - Certified Budget - City expenditures during the year ended June 30, 2004, exceeded amounts budgeted in the public safety, culture and recreation, debt service and capital projects functions.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

III-C-04 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-D-04 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.

III-E-04 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.

III-F-04- Questionable Expenditures - We noted no questionable expenditures during our audit.

CITY OF ORANGE CITY, IOWA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part III: Other Findings Related to Required Statutory Reporting – (Continued)

III-G-04 - Revenue Bonds - No violations of revenue bond resolutions were noted.

III-H-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Arne Vermaat, Councilman Owner of the Dutch Bakery	Bakery Goods	\$244.31

The transactions with Arne Vermaat do not appear to represent a conflict of interest since the total transactions were less than \$1,000 during the year.

III-I-04 Cash and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.